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International Business Ethics: Managing for the Long Term

An interview with Dr. Norman E. Bowie

Article at a glance

- Business ethics is a relatively new field of study, which grew out of the general field of philosophy in the 1970s.
- Broad-based ethical standards like transparency and personal respect apply regardless of company size or sector.
- Cultural norms differ, but there are some universal ethical principles – like the illegality of bribery – that are widely accepted across cultures.

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Introduction

The first decade of the 21st century began with massive ethics scandals at blue chip corporations such as Enron and Tyco, and ended with a worldwide financial implosion on a scale not seen since the Great Depression. The financial crisis and subsequent economic recession – resulting in part from questionable risks undertaken by large financial firms – has caused many to question the underlying ethical values of business, from shareholder rights to executive compensation. Business ethics and sustainability have become hot button issues at leading business schools around the world and are working their way further into finance and accounting curricula.

The Center for International Private Enterprise (CIPE) interviewed one of the world's leading scholars on business ethics, Dr. Norman E. Bowie. As one of the pioneers in the field of business ethics, his nearly four decades of teaching has taken him to the London Business School, Harvard University's Program of Ethics and the Professions, and the University of Minnesota, where he is currently Professor Emeritus. As one of the founders of the Society for Business Ethics and a former Associate Editor of the academic journal Business Ethics Quarterly, Dr. Bowie has witnessed firsthand the evolution of business ethics and the ongoing debates in this field.

CIPE: You began your teaching career in higher education in 1968. How did you become involved in the field of business ethics?

NB: In the 1950s and early 1960s, graduate education in ethics in philosophy departments was based on meta-ethics, which talks about the meaning of ethical terms and justification. The last chapter of Paul Ziff's book called *Semantic Analysis* entitled "The Word Good,"[1] while interesting, has few applications to the business world. In 1971, John Rawls, a professor at Harvard University, wrote a book called *A Theory of Justice,*[2] which made what I call normative philosophy and normative political theory – political philosophy – respectable. A few years earlier, in 1969, Dan Callahan established the Hastings Center for Medical Ethics.

The combination of John Rawls's book and the private funds that became available to support the Hastings Center for Medical Ethics naturally gave rise to the question of whether this approach to ethics could be applicable to business. That is how modern business ethics emerged in the 1970s.

Then a group of philosophers – myself included – founded the Society for Business Ethics in 1980[3] and began publishing the *Business Ethics Quarterly*, which was one of the first journals in business ethics. Things slowly started to fall into place connecting the fields of philosophy and management, although not without difficulties. For example, private capital gave money to universities and business schools for endowed chairs of business ethics, most social scientists initially did not want to get involved in this field of ethics. I happened to be one of those philosophers who began to build the bridge between the philosophy department and the school of management. It took some time; for many years – until 1989 – I was always in a philosophy department.

CIPE: Given the increased attention to the subject over the past 20 years, how has *Business Ethics Quarterly* been received by the business community?

NB: The journal continues to be primarily an academic journal but its focus has evolved over the years.

Now the majority of pieces submitted to the publication are empirical in their analysis, rather than purely theoretical. For instance, there is some exciting work going on in cognition and brain studies. Diana Robertson, a professor at the Wharton School of the University of Pennsylvania, is studying what part of the brain is activated when someone is making an ethical decision. This empirical research has found that there is competition between a Kantian rule-based ethical decision and a decision made on principles of empathy. In each example, a different area of the brain is activated when making a decision based on different principles.

Social scientists are performing a lot of interesting research and there is more partnering between disciplines than ever before. For example, strategy professors from the business school are very interested in the concept of trust-building and are working with the ethicists on this issue and many others.

CIPE: What would you say to critics of the field of business ethics who claim that business is not a single entity but rather a collection of individuals who make their own decisions?

NB: Most of the time when we talk about a business, we use the term "business" as shorthand for the individuals in the organization. When we talk about the band going out on the football field, we do not think there is another thing called "the band" on the field along with all of the members; we recognize that "the band" is simply a colloquialism in place of naming all of the individuals. However, it is important to note that corporate cultures can be distinguished from each other.

For example, the Enron corporate culture – which I think was morally inferior – is very different from the IBM corporate culture. In my courses on ethics I make students aware of their level of analysis. For example, we can talk about individuals and what individual managers should do, but we also can talk about corporations having cultures and having incentive structures. We need to perform an analysis on the same level.

CIPE: How might business ethics change relative to the size of the firm?

NB: I try to have a middle ground between talking about universal principles that will apply regardless of business size or sector. You can talk about those broad principles – respect for persons, fairness, transparency, and avoiding conflicts of interest – and apply them to many different business situations. Yet at the same time, size makes a difference in business. One of the problems in American business education is that we oftentimes forget to teach about the ethics involved in running and/or owning small entrepreneurial businesses. Entrepreneurs often have a different kind of culture than a well-established manufacturing firm.

We need to get away from the narrow focus on the analysis of a traditional large firm. In my classroom, I try to maintain a balance between talking about principles that we could apply to all businesses, but at the same time recognize contextually that the kind of business that one is in may affect the moral climate of that business.

CIPE: At the end of the day, the bottom line matters most for business. Do you think that being ethical makes sense from this perspective?

NB: All other things being equal, there are good theoretical reasons to think that ethical behavior in business has a positive relation to the bottom line over the long term. We also have many cases where unethical behavior has a huge negative impact on the bottom line, like in a bankruptcy or a dramatic increase in the cost of capital.

When trying to grab the attention of business students, it is easiest to show the negative impact of unethical behavior on the bottom line. It is always more difficult to demonstrate positive benefits of ethical behavior but we do have them: reducing transaction costs, solving agency problems, building trust in an organization, eliminating free riding, having an organization where employees want to go to work and derive some meaning in their own lives by creating value through business.

CIPE: Do you find that ethics differ from one culture to another? For example, should businesspeople feel obligated to provide a bribe in a given country if everyone else seems to do it?

NB: The judgment that bribery is wrong is an example of an international ethical norm based on certain universal principles that are more or less accepted everywhere. Bribery is just wrong. This is accepted as a fact all over the world, even in cultures where bribery is practiced profusely. *The Economist* magazine noted in an article entitled, "How to Grease a Palm"[4] that bribe givers and takers never explicitly use words that are equivalent in English to "bribe." They use a different kind of terminology, because a bribe is recognized as unethical. Bribery is illegal everywhere in the world, even where it is widely practiced.

But there are small differences around the world. Many Asian cultures, like Japan, practice a system of small gift giving. There is a difference between a gift in Japan and a bribe in Japan. When I travel in the United States to talk to business groups or businesspeople, I do not hand out gifts but in Japan, it is the polite thing to do. Importantly, if you would ask a business person in Japan if a gift was to be considered a bribe, they would know the difference.

It is a balance between not doing something corrupt or unethical, like bribing, but at the same time recognizing cultural differences. Of course there are many examples of cultural differences that are really quite acceptable and where I think you should "do in Rome as the Romans do" – and then there are other cases where you are clearly violating international norms of business ethics.

CIPE: When you speak to international audiences what is your main point about business ethics?

NB: Making an ethical decision as a manager is all about shades of grey. It is very easy to make a few simple management choices and all of a sudden, find yourself in an ethical dilemma.

When I give talks abroad, I like to bring a message that there is more to business than cash flows and profit and loss statements. First of all, you have to understand the cultural context in which the business operates. In the example of Japan, a lot of the capital is raised from the banks. They simply do not have the same tradition of shareholder wealth. To talk about maximizing shareholder wealth is off target and does not make sense in terms of what the business is trying to accomplish.

I was invited by a Japanese organization to talk on ethics in 2004. I contrasted the finance-based business model, focused on the traditional criterion of financial success, with the responsibility model, the official position of EU, which also includes environmental and social sustainability, and talked about where I saw Japan on this spectrum. I also spoke about social responsibility and corporate governance issues, which are still new in Japan because of its history of homogenous markets. At the end of the event, one CEO came up to me with tears in his eyes and said, "You are the first American who did not say, 'The only thing you have to do is to maximize shareholder wealth.'"

Russia is another example of inadequate cultural knowledge when trying to advise business. After the collapse of communism, the United States and Western Europe immediately started talking about shareholder wealth. Nobody talked about ethics. Nobody talked about keeping contracts. Nobody talked about transparency and trust. It is no surprise that the Russian stock market failed the first time around, because there was absolutely no transparency. Without transparency and without confidence that stockholders will get accurate information, even a rudimentary stock market will fail.

I taught in Poland at the Warsaw School of Economics in the early 1990s on a program from the University of Minnesota. This was only a year or two after the fall of the Berlin Wall, when Warsaw was still a polluted city scarred by Soviet architecture. After giving my lecture on Kantian ethics, one of the students came up to me and said, "Well, that's why the First Bank of Poland failed. Nobody paid their bills." It struck me as odd that all the advisors we had sent over were talking about shareholder wealth – they all missed the mark. Going forward, we all need to do better in advising countries on what makes a sustainable, ethical business work.

Endnotes

[1] Ziff, Paul, *Semantic Analysis*, Ithaca, NY, Cornell University Press, January 1, 1960.
[2] John Rawls, A Theory of Justice, Belknap, 1977, ISBN 0-674-00078-1.
[3] Founding members were Thomas Donaldson, Michael Hoffman, Norman Bowie, Tom Beauchamp, and Richard T. De George, www.societyforbusinessethics.org/images/Documents/sbehistory.pdf.
[4] "How to Grease a Palm," *The Economist*, December 19, 2006, www.economist.com/world/PrinterFriendly.cfm?story_id=8401139.

Norman E. Bowie is the former Elmer L. Andersen Chair in Corporate Responsibility at the University of Minnesota and is now Professor Emeritus. He has authored or edited 16 books and over 75 articles. Professor Bowie is the leading scholar in the application of Kant's moral philosophy to business. His book on that topic is Business Ethics: A Kantian Perspective *and has been translated into Chinese and Japanese. His co-edited text* Ethical Theory and Business *is in the eighth edition. He has held a position as Dixons Professor of Business Ethics and Social Responsibility at the London Business School and been a fellow at Harvard University's Program in Ethics and the Professions. He is past president of the Society for Business Ethics, the American Society for Value Inquiry, and is past Executive Director of the American Philosophical Association. He is the former Associate Editor of* Business Ethics Quarterly. *In 2008, he was elected to the Talbot County Maryland Board of Education. In August 2009, he received the first life time achievement award in scholarship presented by the Society for Business Ethics.*

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