

NEW FACTS STRENGTHENING ETHICAL BEHAVIOR IN BUSINESS AND PUBLIC LIFE

Luiz Carlos Bresser-Pereira

*In Maria Cecília Arruda e Georges Enderle, editors, *Improving Globalization*. Rio de Janeiro: Editora FGV, 2004. Key-note speech at the inaugural session of the II World Congress of Business, Economics, and Ethics, sponsored by the International Society of Business, Economics, and Ethics, São Paulo, 19-23 July, 2000.*

Ethics has always been a central dimension of public life, but it has not always played a role in business life. Why? Ethics is naturally central in public life. Two basic mechanisms control organizations and social systems in the world: politics on one hand, markets on the other. Public life and political life are by definition coordinated by politics (and administration), in which the ethical component is and has always been central. Since philosophers and politicians asked themselves what government is and how should it function, the ethical aspect has been present. Since the Greeks, since Plato and Aristotle, a normative approach to political theory has been dominant.

New in Public Life: Democracy Requires Ethical Control

What is new then in public life? What makes ethics today different from what it was in the past in public life? I believe that in the past, governments and nations were judged according to military power. If they had military power, they were thought to

be good, if they did not, they were not. When capitalism emerged in the late eighteenth century, nations and governments began to be evaluated according to the capacity they had to promote economic growth, to promote prosperity, to increase the wealth of the nation. In this phase, ethics was a secondary concern. In the 20th century democracy became the dominant political regime all over the world. Ethics has become effective in political life because the ethical control of politicians is exercised by the people and by the institutions that the democratic government creates. Although we still have enormous problems, there is no doubt that there has been a significant advancement in the area of public ethics as countries and nations become more and more democratically governed.

New in Business: Firms Have Become Large and Visible, Accountable to Many Stakeholders

What about business ethics? Business ethics is a new field of interest. When, at the beginning of the nineteenth century, capitalism and business enterprises arose, it was believed that markets would fully coordinate economic activity. Since markets involve an automatic mechanism, ethics did not need to play a role. Business enterprise was supposed only to look for profits, observing the law. Business executives' concern was for scope and profit. This was not only what did happen but also what should happen. The law would handle the moral questions. Nothing more needed to be said.

But this approach no longer satisfies. Business ethics as a new concept emerged in the 1970s. What was new in the area of business enterprise that made business ethics an integral part of business life? There are two reasons in my opinion. The first reason is because the neoclassical model, which assumed that ethics was not important, also assumed that business enterprises or firms (those who studied microeconomics will

remember that instead of business enterprises economists say firms) were essentially small firms working in a kind of perfect competition. These small firms had just to be profitable. Over time, business enterprises became larger and larger. Large in relative terms: a business may be large in absolute terms, when it is multinational at a global level, but it may also be large in relative terms, at a national, regional, or local level. It may be large as long as it is visible, as long as it is an entity that people perceive as an entity, not an abstract firm, but something real and concrete: the business enterprise with people, with problems, with brand-names. So, today, there exist a greater number of large business enterprises.

The second reason relates to the first: business enterprises are not accountable anymore just to stockholders, they are also accountable to stakeholders. Not only scale, but also globalization and technology of information made enterprises increasingly visible, putting them in focus all the time. This increased visibility has changed a fundamental fact about business enterprises: They are no longer only accountable to stockholders. Today we recognize that business enterprises are also accountable to stakeholders. This is a new expression used in Britain and in the United States in the last ten or fifteen years, and it refers to all groups which have a stake in the business enterprise: stockholders, and also the employees, the local community, the country in which the business enterprise works, suppliers, and, last but not least, clients. All have stakes in the company, the visible and identifiable company.

A third new fact is the increased concern with the environment. Since the 1970s people in all countries – particularly in the European ones – became increasingly interested in the protection of the environment, which assumed a central ethical value. Businesses enterprises, that had a major role in polluting the environment, were constrained to change their practices due to new legal rules, and to the mounting pressure of society and its NGOs.

An Ethical Approach to Business Enterprises, Supported by Practical Motivation

The presence of stakeholders means that maximizing profits in the short term is not possible anymore. Instead, the business enterprise is supposed to achieve satisfying profits in the long term, taking into consideration the ethical problems involved, the interest of the community. When it assumes a positive and active role in the community, following ethical principles, the enterprise is maximizing its profit in the long run. This is new. While in the past this idea was just theoretical, now it is practical, now if large and visible business enterprises want to maximize profit in the long run, they have no other alternative than to follow ethical principles. Their image, the image they project in the community, in the nation, or even at a world level, depends on their capacity to follow ethical and environmental values and norms.

Therefore, business enterprises may have undue short run profits, that will be reduced in the long run. According to the neoclassical model, to become profitable, the business enterprise is supposed to be productive or efficient: this was the production or technical approach. In the early twentieth century the first business schools in the United States added that that, in order to become profitable, a business enterprise should be oriented to its clients or customers; should optimize its finances; and should be decentralized and professional. Historically these four approaches – the production, the marketing, the finance, and the organization approach – were right. Yet, what is clear today is that a fifth approach is required: the ethical approach. If business enterprise wants to become profitable not only in the short term, but in the medium and long term as well, this is the safer way – increasingly the only alternative.

What are the practical effects of adding an ethical approach? It is my belief, given the increased visibility of business enterprises, that it is directly in the interest of these enterprises to be ethical. However, in the day-to-day operation of a business enterprise, there are many opportunities to violate ethical standards, which are hard to resist: to avoid paying taxes, to sell product of inferior quality, to accept bribery, actively or passively. These practices continue to happen in business enterprises. But I am suggesting that there is today a conflict between the new facts, the new social and political realities of democratic societies, and the ongoing business practices – a conflict that shows the need for stronger business ethics. In the past, just moral principles confronted corruption; now, besides moral principles, there is a practical interest in fighting corruption – an interest that derives from stronger forms of social control.

Interdependence of Countries Strengthens the Motivation for Ethics

This renovated importance given to ethical behavior is taking place in the political arena, within each nation, as they become democratic. In developing countries, where the transition to democracy is recent, or just did not happen, the poor ethical standards represent a major obstacle to economic development. But, since democracy is slowly but surely advancing everywhere, politicians and bureaucrats are being constrained to improve their behavior.

The pressure coming from democratic civil societies is also changing the ethical behavior among nations. The problem of ethics among nations is complex. In real terms, each sovereign nation is supposed to defend its national interest. This defense occurs often in a strong if not ruthless and unethical way. Democratic leaders are

supposed to defend the national interests of citizens who elect them. Sometimes these national interests are not ethical. Solidarity is what is really needed. Many speeches about solidarity among nations are related to ethical problems, but this kind of solidarity is difficult to sustain on a practical basis.

I would offer, however, as a new fact, an idea that ought to encourage nations to be more ethical in their relations to one another. This new fact is globalization, a real phenomenon that has made nations much more interdependent than they had been. There are many complaints from the developing countries about the negative effects of globalization. Here I am not concerned with the possible negative consequences in each specific case, but rather with a larger perspective: If, in the process of globalization, the developing countries have become more dependent on the developed countries, it is equally true that the developed countries are more dependent on the developing countries than they had been before, as well as of the poor, non-developing countries. (I distinguish three kinds of countries in the world: the advanced, developed countries; the medium range, developing countries like Brazil; and the poor and often non-developing countries like many Sub-Saharan African countries.) The world has become much smaller. Terrible diseases in poor Africa may well affect the rich countries. Poverty in poor and developing countries create increasing immigration problems. As the world becomes smaller, we become more interdependent, and solidarity has to develop from ethical principles.

In this way, I return to my basic view in this key note speech: at the national political level, at the business level, and at the international level, there are new facts that make old, good, ethical principles stronger and more effective.

Discussion

Question 1: Globalization

Are we accepting globalization as a fact, as something genuine? Globalization has been accused of many defects. Perhaps an international organization is necessary to establish certain rules for the so-called savage capitalism?

Answer

I understand that globalization has several negative effects. But it is a real phenomenon, the effect of an immense reduction in the cost of transportation and communication. This reduction of costs made the world much more interdependent. This is more a good than a bad fact. For sure, it is a phenomenon that shows that the world is changing. It is an opportunity. In many areas markets began to coordinate economic activities, which was not the case before. In principle, there are two alternatives of coordination: by the market or by the state. The problem is that markets are blind while people have a concern for justice.

Markets are concerned with efficiency and allocation of resources, not with justice. The question of justice is a concern of public life, of politics. That is why government is needed, that is why politics is normatively the noblest of all activities. Each country is a combination of markets and government. Governments first institutionalize markets, establishing basic rules that allow markets to operate, and then limit their bad or undesired effects by applying the political criteria of justice and freedom. The central problem faced by globalization is that there are markets at a global level, but there is no state at that level. Brazilians, Americans, French, Nigerian, all national communities

count with a market and a state. With the advent of globalization, the world now has a market, but only countries have states. Certainly the United Nation cannot successfully function as the world state.

A number of international laws and regulations, especially defending the basic rights, have been established. Change has been impressive in the last 50 years, starting with the Declaration of Human Rights. Much work lay ahead. Globalization viewed as increasing interdependence is not working against but in favor of this international political and ethical development. But globalization should be clearly distinguished from the dangerous ideology of “globalism” which rejects the importance of nation-states and assumes the possibility of a national and international market society. Or, as the French prime-minister Lionel Jospin emphasized recently, there can be no such thing as a market *society*. There is a civil and political society and market *economy*. One has to be very careful about this kind of ideology that originates especially in large business enterprises. Globalization and the welcome development of markets are not substitute for states and governments. We must workout the balance of power between markets and states, at both national and international levels.

Question 2: “Realist Theory”

Keeping in mind the relationship between ethics and democracy, how can we understand that the European Union criticized Austria for accepting the Freedom Party in its government, while welcoming Vladimir Putin, who may be directly responsible for the crackdown in Chechnya?

Answer

The basic theory about international relations, held by well-known academics in the United States, is called the “realist theory.” According to it, each country acts exclusively according its national interest: there is no real control over the political and military behavior of nations except the power of the others. As I said above, at present there is not yet an international state, an international political constituency, an international opinion. Therefore, when complex ethical problems appear on the international scene, they cannot be addressed properly. With regard to Russia and Austria, at this moment, it is not the international interest of nations to criticize a strong Russia, although Russia is not a democratic country. Yet it is possible to criticize Austria, whose international stature is less powerful.

Question 3: Ethics: Old or New Field?

You stated that business ethics or ethics in economic activity is a new field, although it is a very old field. In terms of its popularity, it is a phenomenon perhaps of the last 25 years. But look back to Plato and Aristotle to the Scriptures or to the Christian Gospel. If you look to more contemporary times, you will find questions being raised about the ethics of business behavior, in the beginning of this century. There were universities, indeed, and courses in commercial ethics going back to 1898, and you will find literature that began to develop rather strongly after World War I, not just World War II. The reason I raise this is that I think the notion that somehow business ethics is a new phenomenon that was just recently discovered is not a helpful notion. I think it is something that goes to the heart, as human behavior goes to the heart of the activity, and should be recognized as such.

Answer

Of course, from an abstract perspective, your point is entirely valid. Ethics is a subject with a long and honorable tradition. To the extent that any and every society or organization has valued moral behavior, ethics has been present in public as well as in business arenas. But in viewing this topic within a historical perspective, it is fair to say that business ethics has recently claimed a new and important place both in the teaching and practice of business. Business ethics has recently attracted the attention of a lot of people who invest in business schools as is reflected in an increased number of courses in this area. I made my MBA at Michigan State University in 1960, and there was no business ethics course at all. Now there is such a course at Michigan State and at most good business schools in the world. Furthermore, this issue is more frequently discussed in the good journals, in the good magazines. And the reason for this increased attention is not simply because business ethics represents a resumption of old, good values. Instead, the reason is that the new business enterprises have become more visible, on one hand, and countries and societies have become more democratic on the other. These two facts put together help us to make ethics in business enterprise more effective. We know there is much ground still to be covered, but I believe we have made major steps forward.