

# **Corporate Governance?**

**An Ethical Evaluation of the  
Second King Report  
in the Light of Peter Ulrich's  
Integrative Economic Ethics**

**By**

**K Hendrik W Höver**



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**Supervisor: Prof. Dr. Dirkie J Smit**

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## DECLARATION

I, the undersigned, hereby declare that the work contained in this thesis is my own work and that I have not previously in its entirety or in part submitted it at any university for a degree.



Signature

Date

## ABSTRACT

This assignment is an ethical evaluation of the *Second King Report on Corporate Governance*. I focus on the relationships between the shareowners, the management and all stakeholders other than shareowners. The instrument used to assess the report is the concept of Integrative Economic Ethics shaped by Peter Ulrich.

The Second King Report argues that a company should meet besides its economic needs as well as social and environmental objectives. Therefore, the company has to take responsibility for creating 'sustainable' value in all these three areas. Stakeholders have to be approached inclusively and pro-actively. These are new primary business imperatives due to the increasing social power of companies.

However, the report is based upon a one dimensional approach in which the economic bottom line is decisive, and social and environmental interests are only considered if they serve the sustainability of business success. Likewise the inclusive stakeholder approach is a shortcoming, because stakeholder interests are not regarded as legitimate claims within a moral discourse in which all those citizens partake that are affected or involved by the company's activities. Not legitimacy but the stakeholders' relevance for the 'shareowner value' is the determining argument. Conflicting moral claims are not solved by good reasons, but are decided on a priori in favour of the company's overriding goal, which is to make profit. Profit orientation of a company, however, is not an empirical 'fact' but a normative choice, which is for or against specific interest groups and as such has to be legitimised in a moral discourse. Since the report does not subordinate profit orientation under the primacy of ethics, its whole corporate ethical concept is shaped by 'functionalism' even to the extent, that 'ethics' itself is viewed as an economic 'factor'. Yet, this contradicts the controversial and un-objective nature of ethics. In conclusion the report's entire argument is based upon pure strategic economic grounds and, thus, cannot be considered as ethical at all. Shifting the social and environmental corporate responsibility to the market system is based upon unfounded belief in the 'metaphysics of the market'. This, however, does not lie in the enlightened self-interest of a corporate citizen, as the market is merely ruled by power and counter-power – which is only beneficial for those specific societal groups with the sufficient monetary power to stay competitive. On the contrary, the equality of all citizens in a deliberative democracy must be safeguarded. The liberal idea of a just and well-ordered society implies the understanding of the

company as a corporate citizen. As such its corporate ethics has to entail not only securing a company's integrity through business principles, but also a socio-political co-responsibility which obliges the company to shape the framework of market competition to enable life-conducive value creation. The general public of free and mature citizens is the locus where all claims, including corporate ones, have to be morally justified.

## OPSOMMING

Hierdie werkstuk evalueer die tweede *King Report on Corporate Governance for South Africa*, wat op die verhouding tussen die aandeelhouders (*shareowners*), die bestuur (*management*), en alle deelhebbers (*stakeholders*) buiten die aandeelhouders fokus. Die *Integrative Economic Ethics*-konsep, ontwikkel deur Peter Ulrich, is die instrument wat gebruik is om dié verslag te beoordeel.

Die tweede King-verslag vereis dat 'n maatskappy nie alleen aan sy ekonomiese behoeftes voldoen nie, maar ook dat hy sy sosiale en omgewingsmikpunte haal. Daarom moet die maatskappy verantwoordelikheid neem om volhoubare waarde in elk van hierdie drie areas te skep. Deelhebbers moet inklusief en proaktief genader word. Hierdie is nuwe primêre sake-imperatiewe, as gevolg van die toenemende sosiale mag van maatskappye.

Die verslag is egter op 'n eendimensionele benadering gegrond, naamlik dat ekonomiese kwessies beslissend is (*economic bottom line*) en sosiale en omgewingsbelange slegs in ag geneem word wanneer hulle volhoubare sakesukses bevorder. Die 'inklusiewe deelhebber benadering' (*inclusives stakeholder approach*) skiet eweneens te kort, aangesien deelhebbers se belange nie erken word as regmatige eise binne 'n morele diskoers waaraan alle burgers deelneem wat geraak word deur, of betrokke is by, die maatskappy se aktiwiteite nie. Die deurslaggewende argument is nie regmatigheid nie, maar eerder die relevansie van die deelhebber se waarde vir die aandeelhouer. Strydige morele eise word nie deur goeie redenasie opgelos nie – daar word eerder a priori ten gunste van die maatskappy se oorheersende doel besluit, wat is om wins te maak. Winsoriëntasie van 'n maatskappy is egter nie 'n empiriese feit nie, maar 'n normatiewe keuse, wat vir of teen gegewe belangegroep is, en as sodanig in 'n morele diskoers geregverdig moet word. Aangesien die verslag nie bereid is om winsoriëntasie ondergeskik aan etiese voorrang te stel nie, word die hele korporatiewe etiese konsep gevorm deur “funksionalisme”, selfs tot die mate dat etiek self as 'n ekonomiese faktor gesien word. Tog is dit strydig met die kontroversiële en nie-objektiewe aard van etiek. Ten slotte is die verslag se hele argument gebaseer op 'n suiwer strategies-ekonomiese grondslag, en kan dit dus glad nie as eties beskou word nie.

Die keuse om sosiaal- en omgewingsgerigte korporatiewe verantwoordelikheid na die markstelsel te oor te skuif, is gebaseer op 'n ongegronde geloof in die “metafisika van

die mark” (*metaphysics of the market*). Dit is egter nie in die ingeligte selfbelang van ’n korporatiewe burger nie, siende dat die mark deur mag en teenmag regeer word – wat slegs voordelig is vir die spesifieke groepe in die gemeenskap wat genoegsame monitêre mag het om te kompeteer. In teenstelling daarmee, moet die gelykheid van alle burgers in ’n oorleggende demokrasie beskerm word. Die liberale konsep van ’n juiste en goedgeordende gemeenskap impliseer ’n begrip van ’n maatskappy as ’n korporatiewe burger. Korporatiewe etiek as sulks moet nie alleen ’n maatskappy se integriteit deur maatskappybeginsels verseker nie, maar ook ’n sosio-politiese medeverantwoordelikheid meebring, wat die maatskappy verplig om die raamwerk van markmededinging te vorm om sodoende lewensbevorderlike waardeskepping moontlik te maak. Die algemene publiek van vrye en volwasse burgers is die lokus waar alle eise, insluitend korporatiewe eise, moreel geregverdig moet word.

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## CHAPTER 0

### INTRODUCTION

#### *i. THE TASK*

I shall – as the subtitle of my paper puts it – evaluate the Second King Report in the light of Peter Ulrich’s *Integrative Economic Ethics*. Therefore, what I intend to do is this:

First of all (chapter 1), the Second King Report and its underlying argumentation has to be exegetised. In the first chapter I attempt to distil the sound arguments presented in the Second King Report.

Due to the vast amount of information given by the report, the focal point of my investigation had to be narrowed down and a selection had to be made. Therefore, I focus on the relationship between the stakeholders and the company and reflect on the corporate ethical framework the report uses in dealing with them. The relationship between shareowners and company in particular is only considered where it correlates with the social and environmental corporate responsibility. Thus, the more technical question of how this relationship between the shareowners and the company is managed is not discussed in detail in my paper, although the report mainly focuses on this area. Instead, I am dealing with, what the report calls, the “non-financial issues”<sup>1</sup>, and in doing so I do not attempt to write a mere economic thesis, but an economic-*ethical* one.

The report itself has not been written by one author but by a committee made up of 21 members, which were divided in so-called ‘task teams’, who wrote each of the six sections of the report independently. Finally, all members of the committee summed up their results in the first 45 pages of the report under the following headings: 1. “Introduction and Background”; 2. “Code of Corporate Practices and Conduct”; 3. “Recommendations requiring statutory Amendment and other Actions”.<sup>2</sup> Due to this layout the report lacks the clarity and consistency it would have had had there been only one author. Furthermore, the report uses the style of presenting its arguments in numbered theses and not in a coherent text. Nonetheless, I shall try to overcome these stylistic obstacles by presenting an analytical and systematic outline of the underlying argumentation within the report according to my comprehension of it.

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<sup>1</sup> IoD 2002: 4.

<sup>2</sup> Cf. Ibid: 4f.

Secondly (chapter 2), I attempt to describe an alternative economic ethical model that can be used as an instrument to evaluate the Second King Report's argumentation. This model is delivered by Peter Ulrich's so-called *Integrative Economic Ethics*. He considers economic ethics to have a threefold systematic task, which is to criticise the economic logic within the ethical discourse in the first place in a fundamental way, to develop an alternative idea of good and a solidary living together, which integrates both economic *and* ethical thinking as a second step and finally, to clarify the topology for such an Integrative Economic Ethics.

After a systematic and analytic overview of the argumentation of the Second King Report is established and the critical economic ethical instrument of Peter Ulrich's *Integrative Economic Ethics* has been outlined, the evaluation of the Second King Report from an ethical point of view can eventually take place (chapter 3). *What is the nature of the 'sound' arguments the Second King Report wants to give for Corporate Governance? Where do they come from and what is their inner structure? And finally, what is their ethical value?*

## **ii. WHY CORPORATE GOVERNANCE?**

When I started searching for an interesting topic for my paper within the field of economic ethics I soon developed an interest in corporate ethics. In this subject of economic ethics a vast variety of terminologies, which are linked to specific concepts, are used that tackle social and environmental corporate responsibility. 'Corporate Governance', 'Corporate Citizenship' and even the just used term 'social responsibility' are entire concepts with their unique premises. They are all used in connection to a specific framework of economic ethics and can have vast implications. This currently increasing mass of terminologies that circulates in the corporate world is backed by the commonly growing insight that corporate ethics is a more and more crucial management task.

Corporate Governance investigates how a corporation can be governed best. Given the fact that a company exists of and in a network of relationships, the focal point for Corporate Governance lies in an appropriate balance between all the powers and interests involved. According to Stefan Steiff<sup>3</sup> Corporate Governance refers, in theory, to these relationships in terms of an 'internal triangle' and an 'external' one. The former entails the relationship between the board of directors, the management and the control, whereas the latter refers to

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<sup>3</sup> Cf. Steiff 2002: 248f.

the company, its shareowners and all other stakeholders. Now, the ongoing debate of Corporate Governance is about reasonable business policies within this network of relationships. My paper does not focus on the ‘internal triangle’ which I consider to belong more to the field of management theory and practice. The more ethical relevancy lies in the ‘external triangle’. The controversial nature – and thus the need for ethical orientation – of this latter relational triangle exists due to the monetary power inequalities that are inevitable. Shareowners own a share of the company and therefore have a secured status. The management, in a sense, has more power due to prior information about the company, but is, on the other hand, dependent on the shareowners’ acceptance. Yet, the stakeholders rather than the shareowners are the most inferior element within the triangle since they have no legal and direct financial influence on the management and the shareowners. The group of stakeholders include a variety of members, for instance (according to the Second King Report) business partners, customers, the civil public and the environment.<sup>4</sup> However, the question arises: *How can all needs within this triangle be met in a fair and just way?* – This question is of central importance within corporate ethics and asks for the best corporate governance. Moreover, it goes beyond a narrow minded understanding of Corporate Governance that merely asks how entities can be managed and controlled by leading the discussion on the role of a company within society. The focus therefore has to be extended from a merely corporate ethical view to an economic ethical view that takes the current socio-economic challenges into account and in which corporate ethics is embedded. Hence, this paper can be seen as an attempt to orientate within the corporate ethical discourse with the major starting point of the concept of Corporate Governance due to its central ethical relevancy.

### ***iii. WHY THE SECOND KING REPORT***

The first King Committee on Corporate Governance was formed in 1992 with the aim to give recommendations on an effective implementation of Corporate Governance within a South African context. The first King Report was launched in 1994 and completely reviewed and replaced, due to changes and the latest developments within the corporate world, like the accelerating globalisation, the growing stakeholder activism and the increase of information technology, by the Second King Report in March 2002. Mervyn King is the chairman, hence the name of the report. The report was initiated by the ‘Institute of Directors in Southern

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<sup>4</sup> Cf. Ibid: 97.

Africa'. The report stands in tradition of the global debate about Corporate Governance and follows examples like the "Cadbury Report", "Blue Ribbon Report", "Hampel Report" or "Turnbull Report", while trying to do justice to the unique South African context.

The Second King Report is of high relevancy in South Africa due to the requirement of the South African stock exchange (JSE Securities Exchange South Africa) that lists only those companies that declare to be in line with the report and meet all its recommendations in practice. The report was developed by the Institute of Directors in partnership with the JSE, the Development Bank of Southern Africa, the auditing companies: PricewaterhouseCoopers, Deloitte & Touche, KPMG, Ernst & Young and Andersen, as well as other business partners: ENF Corporate Governance, Financial Mail, Sasol, Eskom and Transnet.<sup>5</sup>

The Institute of Directors in Southern Africa is a substitute of the Institute of Directors in the UK. The latter was founded by Royal Charter in 1903 and serves as non party-political organisation the purpose to "provide [its members] an environment that is conducive for success"<sup>6</sup>. The memberships consist of directors and CEOs from large and small companies.

As far as South Africa is concerned the Second King Report published last year is currently the most relevant corporate ethical paper in the business sector. In a South African discussion about Corporate Governance it can be hardly ignored. This is the reason for evaluating it.

#### ***iv. WHY PETER ULRICH'S INTEGRATIVE ECONOMIC ETHICS***

Peter Ulrich can be considered a pioneer in the field of economic ethics as he was the first person to hold a chair for economic ethics at a German speaking university. Since 1987 he is the director of the Institute for Economic Ethics at the University of St Gallen (Switzerland) and Professor for Economic Ethics. The proposed task was, from the very beginning, a thoroughly reflected philosophical foundation of a valid economic ethical approach. After ten years of hard groundwork Peter Ulrich published his major work<sup>7</sup> which comprises the Integrative Economic Ethics invented by him and developed in his institute. His work is accompanied by various dissertations, articles and other publications, which have been accomplished by a large team of "philosophically thinking economic ethicists"<sup>8</sup> (Ulrich Thielemann (Vice-Director of the Institute), Markus Breuer and Stefan Steiff, among others).

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<sup>5</sup> IoD 2002a: 3.

<sup>6</sup> IoD: Our Philosophie.

<sup>7</sup> This work: Ulrich P 2001. *Integrative Wirtschaftsethik. Grundlangen einer lebensdienlichen Ökonomie*. Peter Haupt: Bern/ Stuttgart/ Wien, is the source for my outline and is sufficient as it summarises Ulrich's whole approach.

<sup>8</sup> Breuer/ Thielemann 2000.

First of all, the approach of Integrative Economic Ethics is unique because of its consistent criticism of all kinds of economic ethical shortcomings without reservation. This harsh criticism has caused and is still causing the controversial potential inherent to the approach. Yet, the sound philosophical foundation that is shaped by the premise of the primacy of ethics over all economic rationality and the sharp analysis and argumentation of economic logic is responsible for the increasing acknowledgement of the Integrative Economic Ethics. Even though the approach gives much attention to criticism it wants to be more than that and tries to give an economic ethical “orientation in discernment”<sup>9</sup> – as Ulrich puts it (in reference to Immanuel Kant). In this regard he develops an alternative ‘integrative’ model of socio-economic rationality which takes the ethical dimension and the economic one seriously. Hence, my paper also tries to go beyond pure criticism of the Second King Report by hinting to alternative ideas in dialogue with the report and supported by Ulrich.

#### *v. WHY A THEOLOGICAL PAPER?*

One may ask why this paper is written by a theology student. I myself am wondering why so few students of economics are interested in the crucial and burning issue of economic ethics. Due to its relevancy I want to study this field, being both an undergraduate economic student, currently enrolled at the Fernuniversität Hagen (Germany), and a postgraduate student of theology at Stellenbosch University (South Africa) by writing this paper, which is my Master thesis.

Although this paper may not be considered a ‘typical’ theological thesis it is a precise and limited endeavour in the field of ethic studies that is inevitably linked to the Christian faith. Economics as part of human life has ever since been part of Christian ethics. From this background it makes sense to deal with corporate ethics as a specific ethical sphere of economics. In my paper I do not use explicit theological language due to the narrowness of the task of my assignment. Nevertheless, this paper cannot be considered as not being theological since

”[f]or Reformed Christians, the world we live in, the society we live in, the political, social and economical realities we live in, are ‘matters of faith’.”<sup>10</sup>

<sup>9</sup> I.e. “sich im Denken orientieren”; Kant I 1786. Was heißt: sich im Denken orientieren? In: Werkausgabe Vol. V. Edited by v W Weichedel. Frankfurt a.M. 1982. Pp. 265-283. Cf. Ulrich 2001: 13.

<sup>10</sup> Smit 1996: 440.

## CHAPTER I

# OUTLINING THE ARGUMENTATION OF THE SECOND KING REPORT FROM AN ETHICAL PERSPECTIVE

### 1. INTRODUCTION

In this chapter I shall give an analytic and systematic overview about the corporate ethical argumentation that is implicit and explicit inherent in the Second King Report.

The ability of politics to influence social-economic questions like unemployment, poverty etc. decline, while the social relevance of corporations increases.<sup>11</sup> Due to a growing public awareness of companies in the social sphere, the need for good corporate governance becomes greater. Companies have to take social and environmental responsibility. “The King Report on Corporate Governance for South Africa 2002”, published by the Institute of Directors in March 2002, is meant to promote good corporate governance in a South African context. The committee opts for a voluntary approach rather than for any attempt to legislate good corporate governance. In consideration of the “highest international standards”<sup>12</sup> the Second King Report wants to give sound reasons for corporate governance and conceived a “Code of Corporate Practices and Conduct”<sup>13</sup>, which encourages directors “to play by the rules of the game and develop a culture [and a code] of good corporate governance in South Africa.”<sup>14</sup>

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<sup>11</sup> To give some exemplifying figures supporting this viewpoint: “In the 1990s the one hundred largest corporations in the world had more economic power than 80 percent of the world’s people. In 1991 the aggregate sales of the world’s ten largest corporations totalled more than the aggregate GNP of the one hundred smallest countries of the world. The world’s five hundred largest industrial enterprises, employing only 0.05 of 1 percent of the planet’s population, nonetheless control 25 percent of the planet’s economic output. The 1992 sales revenues of General Motors alone (\$133 billion) was about the same as the combined GNP of eight countries whose combined population is one-tenth of the world’s – Tanzania, Ethiopia, Bangladesh, Zaire, Nigeria, Kenya, Nepal, and Pakistan.” Cf. Rasmussen 1996:64.

<sup>12</sup> IoD 2002: 4.

<sup>13</sup> Ibid :5.

<sup>14</sup> Wilkinson 2002: 64.

## 2. BACKGROUND AND STRUCTURE

The concept of corporate governance came up in the 1980's due to the increasing numbers of incongruence between ownership and management. The situation arose where owners were no longer taking part in the management of the company. Corporate governance was therefore introduced to ensure that the agents of the owners of a company (management and directors) control the company in the shareowners' interest. The Second King Report is a non-legislated code that is applicable to all companies on the South African stock exchange in Johannesburg (JSE Securities Exchange).

The Second King Report contains seven sections. Each section was worked out independently by so-called task teams. Members of these task teams were prominent citizens from the business sector. Section one deals with boards and directors, their role and function regarding corporate governance. The second and third sections are about risk management and internal audit. The fifth task team wrote about accounting and auditing and the last section tackles the topic of compliance and enforcement. These five sections are all regarded as financial issues, since they belong to the classical fields of management theory and practice. The fourth section differs from the others and is labelled "Integrated Sustainability Reporting", which is seen as a "non-financial matter" (pp. 91-124).<sup>15</sup> This fourth section, reviewed by Reuel Khoza, the president of the Institute of Directors, is subdivided after an introductory part (1.) into five chapters about (2.) stakeholder relationships; (3.) ethical practice and organisational integrity; (4.) safety, health and environment; (5.) social and transformation issues and (6.) human capital. The suggestions by the different task teams were discussed by the King Committee under the chairmanship of Mervyn King, who distilled their recommendation into the "Code of Corporate Practices and Conduct" (pp. 21-41). This new code replaces the code contained in the King Report of 1994 completely. The Second King Report opens with a chapter named "Introduction and Background" (pp. 7-20), which can be regarded as an outline and abstract of the full report.

In order to understand the core of the Report's approach towards and argumentation for corporate governance from an ethical point of view, section four about integrated sustainability reporting together with the introduction as well as the code of corporate practices and conduct are the main sources of investigation.

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<sup>15</sup> Cf. IoD 2002: 4f.

### 3. OUTLINE OF THE SECOND KING REPORT'S ARGUMENTATION FOR CORPORATE GOVERNANCE

#### 3.1. SUSTAINABILITY AND THE TRIPLE BOTTOM LINE – THE UNDERLYING IDEA

The Second King Report distinguishes between financial and non-financial matters. Financial issues are only considered peripheral in my paper. In the following discussion the focus lies on the so-called non-financial issues, which are seen as “social, ethical and environmental issues”<sup>16</sup>. The King committee feels that they cannot be regarded as secondary business imperatives anymore. They gain in importance, because they have significant financial implications for the company.<sup>17</sup> The non-financial matters are discussed in section four under the title “Integrated Sustainability Reporting”<sup>18</sup>.

As the title of section four of the Second King Report suggests the main idea is linked to the term ‘*sustainability*’ or ‘sustainable development’. The meaning of the word ‘sustainability’ is difficult to grasp and means something like ‘more future value’.<sup>19</sup> Somehow the term stays vague and wants to create positive associations.<sup>20</sup> The term is derived from forestry and was used mainly in an ecological context, although it was later also used in social and economic contexts. The ‘Brundtland Report’ (Report of the World Commission on Environment and Development in 1987) defined the term ‘sustainable development’ as “development that meets the needs of the present without compromising the ability of the future generations to meet their own needs”<sup>21</sup>. This idea integrated into the corporate world, is linked to a balance between long- and short-term profits. The Second King Report argues, that in the long-term not only the enterprise itself, but also society and environment in general should benefit. Short-term profit for the enterprise is necessary to survive economically, but as the only corporate aim, it is counterproductive. Not balancing these two necessary fields of profit, can do irreparable damage to the enterprise, society and environment. Focusing on non-financial aspects of management in terms of “social, ethical and environmental management practises”,<sup>22</sup> determines the enterprise’s chance to “survive and prosper in the communities

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<sup>16</sup> IoD 2002: 92.

<sup>17</sup> Cf. *ibid.*

<sup>18</sup> Cf. *ibid.*: 91ff.

<sup>19</sup> Cf. Steiff 2002: 446.

<sup>20</sup> Cf. *Ibid.*

<sup>21</sup> IoD 2002: 91.

<sup>22</sup> Cf. *ibid.*: 91ff.

within which it operates and so ensure future value creation”<sup>23</sup>. To create future value in economic, social and environmental terms is suppose to form the essence of corporate responsibility.

This idea of sustainability in the corporate world is linked to the concept of the *Triple Bottom Line* to which the Second King Report refers as the “achievement of balanced and integrated economic, social and environmental performance”<sup>24</sup>. The concept of the Triple Bottom Line was developed by John Elkington and his consulting agency ‘SustainAbility’ in the UK. It has become very popular and is one of the best known business ethical concepts to customers worldwide: “[A] growing number of major international companies – among them BAA, BP, BT, DuPont, Ford, Novartis, Shell and Unilever – acknowledge the need to address the ‘triple bottom line’ of Sustainability”<sup>25</sup>. The Triple Bottom Line and the interlinked understanding of sustainability is a cornerstone of the Second King Report. Beside the necessary economic value, which enterprises “add or destroy”, the Triple Bottom Line also concentrates on the “social and environmental” value.<sup>26</sup> Thus, the Triple Bottom Line concept implies that the enterprise adds and destroys values and should minimize harm caused by its activities. Therefore the economic and social and environmental issues are intertwined. In the Triple Bottom Line concept the three ‘lines’ are not separate, but depend on each other. The society depends on the economy and the economy depends on the global ecosystem.<sup>27</sup> This concept suggests a three dimensional approach. Besides economic goals there are also social and environmental ones that must be held in balance.

“The environmental aspects include the effect on the environment of product or services produced by the company. The social aspects embrace values, ethics and reciprocal relationships with stakeholders others than just the shareowners.”<sup>28</sup>

Furthermore the Triple Bottom Line functions as a framework to measure and report the performance of the enterprise on an economic, social and environmental level.<sup>29</sup> The concept refers to a “whole set of values, issues and processes”, which enable companies to bring economic, social and environmental benefit. This demands on the one hand that one is “clear about the company’s purpose” and on the other hand that one must take into account the

<sup>23</sup> Cf. *ibid*: 91.

<sup>24</sup> *Ibid*.

<sup>25</sup> Elkington (n. d.) Sustainable development:.

<sup>26</sup> SustainAbility (n. d.) What is the triple bottom line?

<sup>27</sup> Cf. SustainAbility (n. d.) What is the triple bottom line?

<sup>28</sup> IoD 2002: 11.

<sup>29</sup> Cf. *ibid*.

needs of all stakeholders, like “shareholders, customers, employees, business partners, governments, local communities and the public”.<sup>30</sup> In this regard the report distinguishes between financial (economic) and non-financial issues (social and environmental). The whole section four about “Integrated Sustainability Reporting”, is in the preface of the report called “non-financial matters”. Therefore the report seems to follow the Triple Bottom Line by separating special social and environmental needs – non-financial matters – from financial ones.

Profit-orientation is, however, still at the core of the concept. The “company’s purpose”<sup>31</sup> is to make profit or remain profitable. Besides that the needs of stakeholders should also been taken into consideration. Yet, to make profit has absolute priority:

“The overriding goal of any enterprise is to consistently generate a competitive return on investments from its shareowners.”<sup>32</sup>

Thus the ‘non-financial matters’ are profit orientated and have an economic purpose. The needs of stakeholders other than shareowners (social and environmental bottom line) have to be met in order to secure the enterprise’s long-term profit (economic bottom line). In this sense the three dimensional approach of the Triple Bottom Line is specified and clarified by the ‘overriding goal’ mentioned above. However, the report lacks an awareness of the obvious tension between having on the one hand a three dimensional approach and on the other the ‘overriding goal’ of the economic bottom line. This is discussed in the last chapter of my thesis.

### **3.2. INCLUSIVE STAKEHOLDER APPROACH – THE TENSION BETWEEN DIFFERENT STAKEHOLDER GROUPS**

The report promotes an *inclusive stakeholder approach* and rejects an *exclusive one*.<sup>33</sup> The latter takes nothing but shareowners into consideration. Following such an approach, the management has only an obligation to a group of shareowners and thus has to improve their profits. The responsibility towards society is reduced to the responsibility towards

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<sup>30</sup> Cf. *ibid*: 11, 92.

<sup>31</sup> *Ibid*.

<sup>32</sup> IoD 2002: 94.

<sup>33</sup> *Ibid*: 8.

shareowners. The report rejects this so-called “shareowner dominant theory”<sup>34</sup> that treats the shareowners as ‘owners’ of the company. Referring to this view, directors must run the company in the “sole interests”<sup>35</sup> of their (share-) owners. Nothing but providing shareowners with their profitable return of investments is therefore necessary and will fulfil the responsibility of the enterprise towards society.

Contrary to that, the report understands ownership as a “societal phenomenon”<sup>36</sup> rather than a private one. The report argues that according to various jurisdictions a company is a separate persona in law and not purchasable. The influence of shareowners is limited to a vote on the annual meeting, whereas the management has to serve the company’s and not the shareowners’ interests in the first place.

As mentioned above, the Second King Report favours an *inclusive approach*, which takes not only the shareowners, but also the stakeholders into consideration.<sup>37</sup> The King committee distinguishes between four groups of stakeholders. First, there are the shareowners that invest in the enterprise. The second group includes all stakeholders that have a contractual agreement with the enterprise like customers, employees, suppliers, subcontractors and business partners. The third party has no contract with the enterprise and consists of “the civic society in general, local communities, non-governmental organisations and other special interest groups whose concerns may be with issues such as market stability, social equality and the environment”<sup>38</sup>. The State, which controls policies, regulations and laws as well as the legal and political framework in which the enterprise has to operate, is the fourth stakeholder.<sup>39</sup> The complete rank of stakeholders is generally being characterised as a group that has relations to the enterprise and affect its “survival and prosperity”<sup>40</sup>.

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<sup>34</sup> Ibid: 11.

<sup>35</sup> Ibid.

<sup>36</sup> Ibid.

<sup>37</sup> “It is the King Committee’s unanimous view that the inclusive approach is fundamental to doing business in South Africa in order to ensure that companies succeed at balancing economic efficiency and society’s broader objectives.” Ibid: 18.

<sup>38</sup> Ibid: 97.

<sup>39</sup> Cf. *ibid*: 97. This definition of stakeholders is broadly in line with Elkington’s concept of sustainability. He divides stakeholders in seven groups that are influencing the company’s success and have to be engaged. *International Organisations* (like the UN Environmental Program) claim for best practise and stimulate awareness. *Employees* can increase the productivity and build the human capital of the enterprise. *NGOs and the Media* influence the reputation and the licence to operate. *Consumers* demand for improving products and services to reach higher quality. *Governments* can improve the regulatory framework. *Investors* provide capital and reduce risks. *Comparatives and corporate partners* help the enterprise to follow the best practise and cause innovations. (Cf. SustainAbility (n. d.) What is the triple bottom line?).

<sup>40</sup> Ibid: 98.

However, next to this statement the management is recommended “to judge which stakeholders it treats as relevant and which of their interests it is appropriate to meet – taking into account the law and the relevant regulations, and the commercial interests of the company”<sup>41</sup>. This can only be decided on a case-by-case bases and for every company individually. The Second King report, therefore, does not draw the line between an exclusive and inclusive approach consistently, since it distinguishes between more and less important stakeholders. There remains a tension between the group of shareowners and other less important stakeholders. The shareowners are much more powerful and the company relies on them and their investments directly. As a *good citizen* it is the obligation of the board and of the company to manage the tension between the personal interests of stakeholders and the common good of the company, into which their interests converge.<sup>42</sup> All stakeholders have consequently an interest in the survival of the company and thus the company’s interest for reasonable success has the stakeholders’ interests as a necessary condition:

“Without satisfactory levels of profitability in a company, not only will investors who cannot earn an acceptable return on their investments look to alternative opportunities, but it is unlikely that the other stakeholders will have an enduring interest in the company.”<sup>43</sup>

Balancing these stakeholder interests implies “constraints on the management” as a consequence of “[c]onforming to corporate governance standards”. These non-financial obligations, which go along with corporate governance, have a counterpart in the company’s “performance” for financial success and the “sustainability” of its business. Thus to balance the performance for the sake of the shareowners and their return of investments on the one hand and to conform to stakeholder interests on the other hand is meant to be the “key challenge” of corporate governance.<sup>44</sup> However, it is not clarified *how* to balance ‘performance’ and ‘conformance’ and solve the conflicting different interests of stakeholders.

The complete Second King Report, though, puts a much stronger emphasis on the specific relationship between management and shareowners than on the one between management and stakeholders other than shareowners. In fact the majority of the report focuses on the former kind of relationship. Five out of six sections in the report are promoting good corporate governance in terms of transparent, disclosed and trustworthy business practices for the sake

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<sup>41</sup> Wilkinson 2002b: 63.

<sup>42</sup> Cf. IoD 2002: 99.

<sup>43</sup> Ibid: 8.

<sup>44</sup> Cf. *ibid.*

of investors, whereas all other stakeholders are placed on the periphery. Consequently there is an imbalance between ‘enterprise’ and ‘constraints’ and performance for the benefit of shareowner value is highlighted.

“Corporate governance principles were developed [...] because investors with the era of professional manager, were worried about the excessive concentration of power in the hands of the management.”<sup>45</sup>

This statement reveals that the report’s main interest is to balance the ‘concentration of power’ between management and shareowners. This is the main task of corporate governance and therefore a vast amount of attention is given to this matter. Some of the arguments for the specific shareowner-management relationship are outlined below.

Shareowner protection exists as a contractual agreement between the firm and their shareowners. It is regarded as “quite ineffective in practice”<sup>46</sup>. In order to protect shareowners in their relationship with the management the Second King Report recommends seven characteristics of good corporate governance. The senior management should follow a behaviour that is accepted as correct and proper. This commitment is called “*corporate discipline*”. Secondly, it recommends *transparency*, which makes it easily possible for a stranger to analyse the company on a financial and non-financial level. The danger of a small interest group dominating the company and endangering its *independence* should be minimized. The fourth recommendation is *accountability* of all those who make decisions. *Responsibility* calls for corrective action and for penalising mismanagement. The last two recommendations are *fairness* and *social responsibility*. Whereas fairness implies taking all rights and interests seriously, social responsibility means a “non-discriminatory, non-exploitative and responsible” policy regarding “environmental and human rights issues”. This whole bunch of principles should protect and serve shareowner interests and the reason for their importance is the following:

“A company is likely to experience indirect economic benefits such as improved productivity and corporate reputation by taking those factors into consideration.”<sup>47</sup>

The relationship between shareowner and company is also mainly in focus, when the committee writes about today’s increasing possibilities of information technology. Shareowners need relevant information to get a correct idea of the condition and state of

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<sup>45</sup> Ibid: 9.

<sup>46</sup> Cf. this paragraph with *ibid*: 11f.

<sup>47</sup> *Ibid*: 12.

affairs of the firm. The report highlights the importance of “disclosure and transparency”<sup>48</sup>. South Africa is ranked among the top five of 25 emerging markets as it comes to corporate governance, but is poorly ranked in terms of transparency and disclosure.<sup>49</sup> Pro-active and transparent business policy will work out best in times of immense growth of communication and flux of information.

“The proliferation of cheap, accessible communication via the internet has facilitated a potent form of information exchange across all spectrums of society. [...Therefore,] in the age of electronic information and activism, no company can escape the adverse consequences of poor governance.”<sup>50</sup>

Another instrument recommended by the report to protect shareowner interests is the use of “class action”. This instrument “enables a large number of claimants, whose claims are based on a well-defined common question of fact or law, to have their matters heard in one proceeding”<sup>51</sup> and “raise the level of corporate governance by providing checks and balances against unfettered control by directors.”<sup>52</sup> Demands for “disclosure and transparency”<sup>53</sup> are “among the central tenets of the report”<sup>54</sup> and a whole chapter is contributed to “risk management”<sup>55</sup>. – It can be concluded that the clarification and specification of the company’s relationship to the shareowner is a main theme in the report. Thus, the report is highly concerned with protecting investors’ interests. All other stakeholders with their specific needs and interests are not dealt with so intensively and the inclusive approach puts a strong emphasis on shareowner value.

### **3.3. IMPACT ON SOCIETY AND LICENCE TO OPERATE – THE CIVIL PUBLIC AS CRUCIAL STAKEHOLDER**

Society depends on the economy<sup>56</sup> and this dependence has grown to the extent that enterprises gain more and more “social power”<sup>57</sup>. “[...] Companies have greater influence on many citizens in modern democracies than either governments or other organs of civil

<sup>48</sup> Ibid: 10.

<sup>49</sup> Wilkinson 2002a: 20.

<sup>50</sup> Ibid: 9f.

<sup>51</sup> Ibid: 145.

<sup>52</sup> Vermeulen 2002: 8f.

<sup>53</sup> IoD: 10.

<sup>54</sup> Jones 2002.

<sup>55</sup> Cf. IoD: 73-85.

<sup>56</sup> Cf. SustainAbility (n. d.) What is the triple bottom line?

<sup>57</sup> Roussouw 2002: 411.

society.”<sup>58</sup> This increasing status in society leads to more responsibility. A growing number of enterprises themselves become targets of criticism against globalisation. The source of this criticism is the social and ecological impact of their business practices. The possibilities of governments to influence the social and economic living standards of their citizens become more and more limited while companies’ influence on the quality of life increases. – Yet, with ownership comes responsibility.<sup>59</sup> This is the opinion of the Second King Report. But the question arises: What is the driving motivation for enterprises to take on this increased responsibility caused by their growing social relevancy? – Either the state or the critical public opinion, the investigative media or ethical pressure groups force enterprises to practice good corporate governance.<sup>60</sup> Thus, the only reason for taking responsibility lies in the *fear* to suffer stakeholder pressure and not in an inner conviction that ownership consequently leads to responsibility.

“In the global economy, there are many jurisdictions to which a company can run to avoid regulation and taxes or reduce labour costs. But, there are few places where a company can hide its activities from sceptical consumers, shareowners or protestors.”<sup>61</sup>

This statement suggests that a company by its nature acts strategically and at the edge of legalism in order to maximize profit. The report uses an argument of economic cleverness to promote the use of a pro-active stakeholder approach rather than acting in a more passive manner. Two factors immensely punish a poor corporate government: the growth of political activism such as demonstrations against globalisation on the one hand and the interconnectedness of markets in the information age as described with the term ‘global village’ on the other.<sup>62</sup> Good corporate governance is a crucial factor in the competition for international investments. It becomes a regional factor for a whole national economy. South Africa offers investment returns comparable with some of the best in the world, but when it comes to “political, currency and other risks, it must visibly demonstrate impeccable governance standards on all sectors of commercial activity not only in principle”, if international investor should stay interested in this emerging market.<sup>63</sup> The national overall market reputation concerning corporate governance is a significant factor in drawing

<sup>58</sup> IoD 2002: 10.

<sup>59</sup> Cf. *ibid*: 11.

<sup>60</sup> *Ibid*: 8.

<sup>61</sup> *Ibid*: 10

<sup>62</sup> “[...] in the age of electronic information and activism, no company can escape the adverse of poor governance. [...] If there is a lack of good corporate governance in a market, capital will leave that market with the click of a mouse.” *ibid*: 10.

<sup>63</sup> Cf. Wilkinson2002a: 20.

investments. “If a country does not have a reputation of strong corporate governance practices capital will flow elsewhere.”<sup>64</sup> Corporate governance affects the corporate world in national frameworks. Hence, enterprises depend on each other’s good corporate governance and the reputation of the whole market. There is a competition between national markets that decide where human and financial capital flows.

“Markets exist by the grace of investors.”<sup>65</sup>

However companies also depend on their stakeholders when it comes to their “*license to operate*”<sup>66</sup>. A company has to be legitimised by its stakeholders otherwise it gets in danger of losing its reputation and finally its licence to operate.<sup>67</sup> Therefore a licence to operate is not achieved merely by acting legally. Whereas a company’s reputation is more related to its image in public, the licence to operate arises out of the mutually beneficial relationship between the enterprise and its stakeholders. Roussouw<sup>68</sup> stresses the fact that the company’s *reputation* belongs to its *symbolic assets*. It is the obligation of the management to protect these kinds of assets that have a significant influence on how the company is valued on the market and whether it is able to attract investors, customers and talented employees.<sup>69</sup> One of the essential aims of corporate governance is to continuously legitimise the enterprise. The purpose is to establish a sound mutually beneficial relationship that can help the enterprise through future struggles.

“Demonstrating concern creates an atmosphere of trust and a better understanding of corporate aims, so that when the next crisis comes (and these are inevitable for big companies) there will be a greater goodwill to help the company survive.”<sup>70</sup>

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<sup>64</sup> Ibid: 10.

<sup>65</sup> Ibid.

<sup>66</sup> Cf. *ibid*: 8.

<sup>67</sup> In former years the “license to operate” was simply a license from the regulating officials to open a business. This dependency has changed to stakeholders and gained in its complexity. “Boards have to consider not only the regulatory aspect, but also industry and market standards, industry reputation, the investigating media, and the attitudes of customers, suppliers, consumers, employees, investors, and communities (local, national and international), ethical pressure groups, public opinion, public confidence, political opinion, etc.” *Ibid*.

<sup>68</sup> Cf. Roussouw 2002: 413.

<sup>69</sup> The Second King Report indicates clearly interconnectedness between profitable outcome and corporate integrity: “Reputation is a function of stakeholder perception of a company’s integrity *and* efficiency, derived from many sources, such as customer service, employee relations, community relations, ethical conduct, and safety, health and environmental practices.” *Ibid*: 98.

<sup>70</sup> *Ibid*: 11.

### 3.4. PROFIT ORIENTATION – THE ‘OVERRIDING GOAL’ OF THE COMPANY’S ACTIVITIES

The crucial argument in the Second King Report is that corporate governance causes a long-term surplus. The high relevance of the argument “that good corporate governance pays”<sup>71</sup> can be seen by the fact, that the importance of shareowner value is a central argument of over two and a half pages out of 13 in the introductory part<sup>72</sup>, which also functions as the summary of the whole report. This becomes even more obvious by the imbalance between ‘financial’ and ‘non-financial’ matters in the report. Five out of six sections of the report, which is 70%, grapple with financial issues, which focus mainly – as shown in chapter 3.1 – on the management-shareowner relationship.

Surveys are used to give empirical proof of the argument that good corporate governance creates profit in the long run and the characterisation of our age as the ‘information age’ seems to support the idea that the global investment market prefers companies with good corporate governance. One survey done by McKinsey & Co<sup>73</sup> found out, that good corporate governance is a significant factor for an increasing number of investments, which is indicated by 84% of worldwide acting institutional investors that represent in summa US \$ 3 trillion, in assets. Thus the report concludes:

“The implications for companies are profound. Simply by developing good corporate governance, managers can potentially add significant shareowner value.”<sup>74</sup>

US Pension funds have immense financial resources and are stocking up their foreign investments. The Second King Report observes increasing investment activities on the South African market. Good corporate governance, as the report states, seems to be the key factor for shareowners. The flux of investments today is higher than ever and is due to the fact that information technology investments are leaving the country with a mouse click. Corporate governance means in this regard earning the trust of investors for sustainable and secure investments.

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<sup>71</sup> Cf. *ibid*: 13.

<sup>72</sup> Cf. *ibid*: 13-15 (in “Introduction and Background”: 7-20).

<sup>73</sup> Cf. *ibid*: 13.

<sup>74</sup> *Ibid*.

“[...] it must be acknowledged that global awareness is growing that any company’s long-term commercial success is inextricably linked to the sustainable development of the social and economic communities within which it operates.”<sup>75</sup>

The inclusive stakeholder approach combined with the concept of sustainability, safeguards the future of the enterprise by supporting the stability of the economic, social and political context where business takes place. Global investors see this as a minimization of their risk and gain trust in the sustainability of their profits.

“A wealth of evidence has established that this inclusive approach is the way to create sustainable business success and steady, long-term growth in shareowner value.”<sup>76</sup>

### **3.5. MANAGEMENT INSTRUMENT AND CONTEXT – THE APPLICATION OF CORPORATE GOVERNANCE IN SOUTH AFRICA**

It is necessary to engage regularly with stakeholders and address their needs. Stakeholders should play an integrated part in the company’s strategy. Communication is the key. In former times financial reporting may have been sufficient, but nowadays “investors [...] want a forward-looking approach of reporting”<sup>77</sup>. The report recommends the use of the “*balanced scorecard approach*”, which indicates “whether or not a company is likely to have sustainable success”.<sup>78</sup> This management tool has been developed by Kaplan and Norton in the early 1990s in order to help companies to better manage intangible assets such as intellectual and organisational capital as the value drivers for future success. The balanced scorecard approach takes four distinct perspectives into account – “customers, internal business processes, learning and growth”<sup>79</sup> and is a measurement system first of all.

“The Balance Scorecard retains financial measurement as a critical summary of managerial performance, but it highlights a more general and integrated set of measurements that link current customer, internal process, employee, and system performance to long-term financial success.”<sup>80</sup>

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<sup>75</sup> Ibid: 98.

<sup>76</sup> Ibid.

<sup>77</sup> Ibid: 15.

<sup>78</sup> Ibid.

<sup>79</sup> Kaplan/ Norton 1996a: 75

<sup>80</sup> Kaplan/ Norton 1996: 21.

They argue that most approaches focus too narrowly on financial figures without concerning themselves with the company's weaknesses and strengths in a broader non-financial sense to generate future success. However to ensure future profit a management tool is necessary that is based on leading indicators of business success. The balanced scorecard is this "strategic management system"<sup>81</sup> that analyses the contribution of the intangible assets.

The *Sustainability Reporting Guidelines* used by the report were developed by the Global Reporting Initiative for non-financial reporting.<sup>82</sup> This is one initiative among others that wants to establish an international recognized standard in social and environmental reporting to make companies in this new area of reporting comparable. Whereas the Balanced Scorecard is a management instrument first of all and mainly used within the company itself, the Sustainability Reporting wants to give information to all kinds of stakeholders about the company's performance concerning social and environmental matters. The Global Reporting Initiative is arguing for a solely voluntary usage of its guidelines and was established in 1997. In 2002 it became independent and "is an official collaborating centre of the United Nations Environment Programme (UNEP) and works in cooperation with UN Secretary-General Kofi Annan's Global Compact".<sup>83</sup>

The report also promotes the *Global Compact*; an initiative that was presented by the UN General Secretary Kofi Annan on the World Economic Forum in 1999 in Davos and was finally launched by UN agencies for environment (UNEP), labour (ILO) and human rights (UNHCHR) in July 2000.<sup>84</sup> The UN Global Compact is based on a "universal consensus"<sup>85</sup> and contains nine principles<sup>86</sup> with the purpose to protect human rights, secure labour

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<sup>81</sup> Kaplan/ Norton 1996a: 75.

<sup>82</sup> The Second King Report prints the recommendation of the Global Reporting Initiative in appendix XI (pp. 254-275). Furthermore the section four of the report is labelled "Integrated *Sustainability Reporting*" (pp. 91-124). The report is referring to the 2000 guidelines of the Global Reporting Initiative. The latest guidelines of 2002 were not anymore regarded.

<sup>83</sup> Cf. Global Reporting Initiative: GRI at a glance.

<sup>84</sup> Cf. The Global Compact: What is the Global Compact?

<sup>85</sup> The Global Compact: The Nine principles.

<sup>86</sup> "The nine principles are:

[I.] human rights:

1. Businesses should support and respect the protection of internationally proclaimed human rights: within their sphere of influence; and
2. make sure that they are not complicit in human rights abuses

[II.] labour standards:

3. Businesses should uphold the freedom of association and the effective recognition of the right to collective bargaining;
4. the elimination of all forms of forced and compulsory labour;
5. the effective abolition of child labour; and
6. eliminate discrimination in respect of employment and occupation.

standards and reduce harm to the environment. The Second King Report prints the full document as Appendix IX<sup>87</sup> and uses the same differentiation in a chapter about “safety, health and the environment (SHE)”<sup>88</sup> although an explicit link to the Global Compact is missing here.

Besides these common international management instruments and standards the Second King Report also advises the installation of a *code of ethics* on which decision-making is based. In fact, it lies in the responsibility of the board of directors “to define [...] the values by which the company will perform its daily existence”<sup>89</sup>. However, the context of South Africa with its diversity on cultural, religious and ethical level must be taken into account if a company defines and installs its code of conduct or corporate ethos.<sup>90</sup> Corporate governance has to consider the socio-cultural context in which it takes place. The King Committee observes some specific values in the African worldview and in the South African culture, which have to be considered seriously<sup>91</sup>:

“Spiritual Collectiveness” is highly regarded aligned with a longing for consensus, with a humiliating and “non-discriminatory” attitude that culminates in a “trust and belief in fairness of all human beings” which is manifested in a feeling of “universal brotherhood”. The sense of belonging to a family or clan and the tradition of an “inclusive system of consultation at various levels” are still strong in the South African culture. The committee also takes Africa’s strong religiosity into account and observes a “perpetual optimism [...] due to strong belief in the existence of an omniscient, omnipotent and omnipresent superior being in the form of the creator of mankind”. However the most dominate socio-cultural observation to which the committee refers, is the concept of *Ubuntu*. This term refers to the fact that one earns respect only through “cordial co-existence with others”. Ubuntu<sup>92</sup> is an idea that supports “human relations in African societies” and means that “one’s personhood depends on one’s own relationship with others”, which leads to a highlighting of “supportiveness, co-operation and solidarity.” This is highly valuable in a corporate context and has “significant practical

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[III.] Environment:

7. Business should support a precautionary approach to environment challenges;
8. undertake initiatives to promote greater environmental responsibility; and
9. encourage the development and diffusion of environmentally friendly technologies.

Ibid.

<sup>87</sup> IoD 2002: 228-247

<sup>88</sup> Ibid. 106-113.

<sup>89</sup> Ibid: 18.

<sup>90</sup> Cf. *ibid.*

<sup>91</sup> Cf. the following paragraph *ibid*: 18f.

<sup>92</sup> Cf. the following paragraph *ibid*: 94.

implications for corporate life” as it underlines the importance of stakeholder relationships and is therefore related to “the notion of sustainability and the triple bottom line”.

“In implementing best practices with regard to the triple bottom line, corporate South Africa would be well-advised to build on the foundation of African values.”<sup>93</sup>

Reuel Khoza, president of the Institute of Directors and convenor of the task team “Integrated Sustainability Reporting” (section four of the second King Report), states it even clearer:

“Our ancestors appear to have understood good governance practices much better than we do. As Africans, I believe that we have a legacy which, if built upon and strengthened, could set Africans – South Africans – apart as world leaders in the area of good corporate governance with regard to sustainability and triple bottom line performance.”<sup>94</sup>

Thus the “heritage of African values”<sup>95</sup> should have an impact on leadership and management of an enterprise. This could for instance take place in the implementation of a “code of ethics” that focus on the “ethical practices” and “organisational integrity” of a corporation, taking African values like the “notion of participation and inclusiveness” seriously.<sup>96</sup> Ethical principles should be defined in consideration of the company’s responsibility towards shareowners, customers, business partners, employees and the community, on which it has a social and environmental impact. These broad ethical principles must be concretised in values, norms and standards that have consequences on a behavioural and structural level. Stakeholder should be part of this process of definition and the result should be communicated to them. The enterprise has to identify its values, which form the foundation on which the company functions in everyday life and communicate them to their stakeholders.<sup>97</sup> The principles, if they are installed, enable the management to strengthen the company’s integrity and are instruments to measure the company by in the future. The central ethical principles of all companies should include: “fairness, transparency, honesty, non-discrimination, accountability and responsibility; and respect for human dignity, human rights and social justice”.<sup>98</sup> The report gives some recommendations<sup>99</sup> for principles that should

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<sup>93</sup> Ibid.

<sup>94</sup> Khoza 2002: 18.

<sup>95</sup> Ibid.

<sup>96</sup> Cf. IoD: 101f.

<sup>97</sup> Cf. *ibid*: 8: “[...]The values by which the company carry on its daily life should be *identified* and communicated to all *stakeholders* [highlighted by H. H.]”

<sup>98</sup> Cf. *ibid*: 103.

have consequences for the board of directors, management, employees, suppliers, consultants and contractors.

Regarding ethical principles a special emphasis is also put on relationships with employees and environmental issues. The committee specifies and discusses issues of safety, health and environment separately in a whole chapter.<sup>100</sup> HIV/AIDS is considered with its economic and social implications. A company has to provide optimal prevention for their employees and the management should “understand the social and economic impact that HIV/AIDS will have on business activities”.<sup>101</sup> According to the report 20% of the South African working population will be infected in five years time. This poses a “significant risk” for companies. Though it is recommended, it is not clarified *how* to “adopt an appropriate strategy, plan and policies”<sup>102</sup>. The report also does not give clear suggestions on how to deal with the ethical dilemma caused by HIV/AIDS.

In the process of transformation the corporate world should cooperate with the government and society in general. An “ethical conscience” is a “crucial” factor for establishing the “long-term success” of companies.<sup>103</sup>

“The long-term success of the South African economy is dependent on a wide and diverse pool of skill contribution to, and participation in, the most meaningful way.”<sup>104</sup>

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<sup>99</sup> The King report (2002: 103) gives advice for an ethical program to be implemented as management instrument in a corporate. This implies for instance:

- “regular and formal identification of ethical risk areas;
- developing and strengthening a monitoring and compliance policies, procedures and systems;
- establish easy accessible safe reporting (e.g. “whistle-blowing”) channels;
- alignment of the company’s disciplinary code with its code of ethical practice to reinforce zero-tolerance for unethical behaviour;
- development of performance measurement and remuneration systems that reward ethical behaviour and punish unethical behaviour;
- integrity assessment as part of selection and promotion procedures;
- induction of new appointees;
- training on ethical-principles, standards and decision-making;
- regular monitoring of compliance with ethical principles and standards e.g. using the internal audit function;
- reporting to stakeholders on compliance;
- and independent verification of conformance to established principles and standards of ethical behaviour”.

<sup>100</sup> Cf. *ibid*: 106ff.

<sup>101</sup> *Ibid*: 109.

<sup>102</sup> *Ibid*.

<sup>103</sup> Cf. *ibid*: 114.

<sup>104</sup> *Ibid*: 115.

This is the reason and motivating argument for businesses to reinforce the “richness of diversity”<sup>105</sup> and proceed in the transformation process. If companies do not act in a proactive manner for the benefit of themselves and society in general they will have to fear legal action. Possibilities should be provided for former disadvantaged groups in society. Inequality of “ownership, management and control over South Africa’s financial and economic resources”<sup>106</sup> must be removed through black economic empowerment. Women must also receive greater consideration in the appointment of leadership positions.

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<sup>105</sup> Ibid: 116.

<sup>106</sup> Ibid: 117.

#### 4. CONCLUSION

The central idea of the Second King Report is described by the term ‘sustainability’ and refers to sustainable business success. A sustainable surplus for the company can only be safeguarded by an appropriate balance between short and long-term profits. To create short-term profit one has to focus on financial matters whereas long-term profit can only be generated if society and the environment also benefit. This connectedness between an economic bottom line and an environmental and social one, is illustrated by the use of Elkington’s concept of the Triple Bottom Line. However the question arises: Why are these ‘lines’ interconnected? – To answer this question the report refers for instance to the civil public which gains more and more influence on the “symbolic assets”<sup>107</sup> of a company such as reputation and ultimately the ‘licence to operate’. Mervyn King puts it this way:

“Not even a great corporation like Shell could escape global criticism with its attempt to explode the Brent Spar platform at sea. The rich are getting richer and the poor are getting poorer; and the person on the street sees the medium for creating this situation as the corporation. This is at the heart of the anti-globalisation movement evidenced in the so-called Seattle Battle.”<sup>108</sup>

Good governance has become a competitive factor for single company’s and even national economies, especially in emerging markets like the one in South Africa. The company’s dependency on good relationships with their stakeholders, through good corporate governance practices, is proved in different surveys. What the investors consider in searching for value in emerging markets, is, “the degree to which the country and the target company have adopted sound corporate practises”<sup>109</sup>.

The amount of stakeholders has a huge impact on the future success of a company. To influence these stakeholders positively; respectively to reduce the company’s harm to them, it must approach them in an inclusive and pro-active manner and meet their needs.

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<sup>107</sup> Rossouw 2002: 413.

<sup>108</sup> King 2002:13.

<sup>109</sup> According to McKinsey, investors would pay 22% more for a company, which practices corporate governance, than for an equivalent company that does not. Thus, corporate governance is a key factor in the search for international capital. King (2002:13) proves this argument by referring to big investment companies such as Capital International, Credit Suisse Asset Management, Deutsche Asset Management, Hermes Investment Management, JP Morgan Fleming Asset Management and Templeton Asset Management. In fact, he uses one third of a one page article in the Financial Mail (29. March 2002), which summarises the Second King Report, on this “sufficient empirical evidence” (IoD 2002: 13).

The Second King Report argues for a specific model of corporate governance, that takes the South African context into consideration. Yet, there are international standards that are also valid for South Africa. The whole report is based on four rudimentary, but crucial pillars, “fairness, accountability, responsibility and transparency”, which are recommended by the Organisation for Economic Co-operation and Development (OECD) and “are fundamental to all [...] international guidelines of corporate governance.”<sup>110</sup>

However, the tension between the economic bottom line on the one hand and the ecological and social one on the other, is problematic. It is made crystal clear: the ‘overriding goal’ of an enterprise is to make profit. Thus the economic bottom line has priority. We find the same vague situation within the inclusive stakeholder approach, which is promoted by the Second King Report. The company’s relationship to shareowners is much more highly regarded than its relationship to all the other stakeholders. Regarding this problematic tension the report states:

“The key challenge for good corporate citizenship is to seek an appropriate balance between *enterprise (performance)* and *constraints (conformance)*, so taking into account the expectations of shareowners for reasonable capital growth and the responsibility concerning the interest of other stakeholders of the company.”<sup>111</sup>

“Unfortunately it is not described in any detail”<sup>112</sup> how to reach an ‘appropriate balance’ and the problem is not resolved. In fact, its interpretation remains open to the discretion of the board of directors and individuals in each company.

The rhetoric of the second King Report is shaped by a language of attraction and threat. On the one hand we find economic arguments that should *attract* companies to implement good corporate governance for ‘sustainable’ and long-term business success.<sup>113</sup> On the other hand the committee observes a growth of global criticism confronting the corporate sphere that threaten companies to apply practices they cannot avoid anyway.

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<sup>110</sup> Ibid: 15.

<sup>111</sup> Ibid: 8.

<sup>112</sup> Joubert 2002: 38.

<sup>113</sup> The *Executive Business Brief (Vol.7, No. 6, 2002, p. 18)* quotes Jo Schwenke the managing director of ‘Business Partners’ using the same language of attraction when he states: “[If a company serves stakeholder interests] it’s likely to succeed, because it’ll be liked and supported by those stakeholders. When ‘Business Partners’ therefore invests in a company, good governance is a prerequisite, and will be enforced. This isn’t only because it’s the right thing to do, but because it makes business sense. Corporate governance should not be seen as just expense, but something that will cause benefits to flow back to the company.”

## CHAPTER II

### OUTLINING PETER ULRICH'S INTEGRATIVE ECONOMIC ETHICS

#### 1. INTRODUCTION

In contrast to the Second King Report the Integrative Economic Ethics (Integrative Wirtschaftsethik) of Peter Ulrich, which he has developed since 1987 at the Institute for Economic Ethics at the University of St Gallen<sup>114</sup>, has a much more philosophically reflected foundation with its roots in modern discourse ethics. For Ulrich a reasonable social-economic reality is measured by its life-conduciveness. Thus, human beings should be in the centre of the economic rationality. However, in theory and practice the market economy is mainly influenced by an anonymous economic rationality, which cannot serve the quality of life and the solidarity of human beings living together and justice for all. As a point of departure for an integrative approach one needs to understand economic rationality as having a normative logic, which needs ethical reflection. Integrative Economic Ethics is different from those approaches, which consider the ethical criticism of this economic rationale neither as *possible* nor as *necessary*. However, economic reason has to be criticized fundamentally and in new ways to conform to an ethically integrated idea of *socio-economic rationality*, which have yet to be discovered. Business ethics as part of political ethics has to integrate with economic ethics and their relationship must be discerned in a comprehensive way. In opposition to the “exceeding dominance of the ideology of ‘free market’”<sup>115</sup>, Ulrich wants to develop a solid foundation of life-conducive economics that takes place in a well-ordered society of free and equal citizens. This critical-normative and fundamental reflection is for Ulrich the purpose of Economic Ethics and is outlined below.

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<sup>114</sup> The main source for Peter Ulrich's Integrative Economic Ethics is his book: 'Integrative Wirtschaftsethik. Grundlagen einer lebensdienlichen Ökonomie', with the subtitle: Foundations of a life-conducive economy. The Book was published in 1997 (here third Edition 2001) and summarises Ulrich's work of the last 10 years at the Institute of Business Ethics at the University of St. Gallen (Switzerland).

<sup>115</sup> Ulrich 1998: V.

## 2. MORALITY AND ECONOMIC RATIONALITY – AN INTEGRATIVE APPROACH<sup>116</sup>

*Neo-classical economics* is driven by the methodological self-understanding of doing economics in terms of ‘pure’ economics in a value-free sphere and in a genuine rational manner. This way of doing economics is based upon the *homo oeconomicus* assumption,<sup>117</sup> which means that nothing else matters than the mutually unconcerned interaction between individuals in economy as well as in politics and all other areas of society. In this ideal theory of society the citizens do not have any virtues or duties towards society other than following their own self-interest.<sup>118</sup>

Peter Ulrich conceptualises his economic ethical approach in opposition to this mainstream economics and the tradition of *classical political economy*. Economics is understood as dealing with social practice and cannot be reduced to a pure economic theorem. It is neither free of social obligation nor value-free and, thus, has to be stringently termed *social economics*.<sup>119</sup>

As a result, the point of departure for social economics is social and humanitarian problems rather than the fictional problems of an impersonal market system. This necessitates that one enters into ethical discourse. The moral framework arises out human existence and its inherent conditions. One is confronted with man’s quest for the meaning of his existence and the basic universal structure of interpersonal relationships, from the perspective of real-life experience. This twofold dimension of human existence is already familiar to everyone of us. It leads to a form of philosophical ethics that is influenced by the ethical rationality shaped by Immanuel Kant and its latest version: discourse ethics.<sup>120</sup> This gives Ulrich the foundation for

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<sup>116</sup> For the following paragraphs of this chapter cf. Ulrich 2001: 23-130 (I. Grundbegriffe moderner Ethik und der Ansatz integrativer Wirtschaftsethik).

<sup>117</sup> The *homo oeconomicus* is a model which illustrates economic rationality. Thus the *homo oeconomicus* has merely a threefold interest: consequent self-maintenance on the market, self-interested striving for success and maximizing profit. Cf. Thielemann 2002.

<sup>118</sup> Cf. this paragraph with Ulrich 1998: 1ff.

<sup>119</sup> *ibid.*

<sup>120</sup> The starting point for modern *discourse ethics* is the understanding of human beings as ‘language animals’ (Sprachtiere). Without language there is no thinking and thus no reason. This ethical approach shaped by Jürgen Habermas and Karl-Otto Apel wants to prove the reciprocal claims between humans towards their legitimacy through a rational discourse. Consensus within this ideal speech situation is regarded as the criterion for knowledge. Knowledge is a conversational agreement through interaction by rational participants. To avoid relativism, knowledge is only generated in a process determined by the following rules. First, empirical experience is only allowed if it is objectively acceptable. Second, in the discourse no other force than the force of

his ethical, rational approach towards economics (*Vernunftsethik des Wirtschaftens*) and the ground for a critique of different forms of economic ethics that stop their ethical reflection of economics at the same characteristic point.

The basis for Ulrich is *the* ‘moral point of view’ (in fact it is the sole and universal one) that can be substantiated by ethical rationality.<sup>121</sup> Ethical reflection as part of the ‘culture of reason’ – for all humans with ‘good will’ – is a normative precondition for good living in a just society of free and responsible humans.<sup>122</sup> Despite the neo-classical economic theory that follows the philosophical streams of scepticism and relativism, Ulrich argues *for* a compatibility of morality and rationality. It is characteristic for neo-classic economists to have the opinion that moral questions cannot be solved by reason, with the result that rationality is only understood in economic terms and thus reduced to serve a strategic purpose.

Yet, the idea of human free will is intertwined with morality itself. Taking moral duty seriously and following its call, safeguards our human autonomy and thus is the cornerstone of our human dignity. Reasons for moral behaviour can only be founded upon human morality itself – and not in metaphysical prepositions, as religious beliefs for instance – and thus in our ‘good will’ to oblige to our moral duties, which we acknowledge as such because of their legitimacy. ‘Good will’ is thus the essential precondition for any normative claim towards ourselves.

„[Im] Primat des moralischen Wollens vor jedem begründbaren normativen Sollen kommt [...] unsere Autonomie und Moralität zur Geltung.“<sup>123</sup>

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the best rational argument is allowed. Third, knowledge is distilled through the process of genuine consensus. Fourth, knowledge remains revisable.

The communicative ethos that is specified by these rules, is the inevitable prerequisite for rational understanding and communication between humans. The most crucial precondition is the mutual acknowledgement of all participants as responsible persons. All humans are equal subjects between whom rational agreement is possible. This acknowledgement of every human being as a subject, which is today commonly recognised as the affording of human dignity, was most clearly formulated by Immanuel Kant: “Handle so, dass du die Menschheit sowohl in deiner Person, als in der eines jeden anderen jederzeit zugleich als Zweck, niemals bloss als Mittel brauchest.” (Kant (1786) 2000: 79). Insofar ethical discourse is not decided by power, but merely by good reason.

Discourse ethics is an explication of the moral point of view that Kant located in the transcendental rational subject, who proves if its maxims are universally valid by the use of the Categorical Imperative. Discourse ethics interprets and reformulates this regulative idea as necessary in the ideal speech situation. Insofar the ideal speech situation is not meant to be practical done with all participants in real life. Rather it is understood as ‘ideal’ in terms of an imaginative experiment and thus serves as a ‘regulative idea’. Cf. Ulrich 2001: 78ff.

<sup>121</sup> Cf. Ulrich 1998: 7.

<sup>122</sup> Cf. Ulrich 2001: 24f.

<sup>123</sup> Ibid: 25.

Good reasons for moral behaviour are nothing else but rational motives, which we as persons of integrity are willing to support. Moral duty is therefore identical with what we reasonably want. This ‘moral point of view’ can easily be understood reflexively from the common “*normative logic of interhumanity*”<sup>124</sup>, to which each human being as subject already belongs. The inter-personal character of our mutual expectation is rooted in the fundamental structure of our *conditio humana*. As a result we are not able to leave this moral community completely. However, human beings are themselves ambivalent and contradictory creatures, whose factual actions and moral duties differ greatly. This makes ethics in terms of an argument-giving moral orientation necessary. Ulrich concludes four common elements of these moral inter-personal obligations that are an inevitable part of human existence and are equally valid for all humans:

- (1.) All humans are in principle equally vulnerable and need protection
- (2.) and they are equally capable to put themselves in somebody else’s shoes,
- (3.) which leads to a reciprocity of legitimate moral claims.
- (4.) This moral reciprocity can be generalised.

This enumeration becomes reflexively evident from the *perspective of real life* (*lebensweltliche Perspektive*). From our life-practical experience we know how it feels to be hurt by others and therefore feel guilty if we hurt somebody else in the same way.<sup>125</sup> This dimension of being human (i.e. having a conscience) aligned with ‘good will’ leads to the fundamental ‘moral point of view’ (*das grundlegende Moralprinzip*).

From Ulrich’s perspective, business ethics relies on and is in itself rational ethics and not ‘applied’ ethics. The common understanding of business ethics (respectively *Wirtschaftsethik*) – according to Ulrich – can be characterised by a ‘stop of ethical reflection’ due to certain presuppositions of economic ideologies. This understanding of ethics is self-contradicting. Doing business ethics in this way suggests that the economic sphere is not yet touched by ethics and determined by pure value-free economically logical arguments. Business ethics in this way is in theory and practice only needed in those cases where competition on the open market is not conducted correctly or at least not in a sufficient manner (market failure). This

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<sup>124</sup> Cf. Ulrich 1998: 7; in German he calls this the “normative Logik der Zwischenmenschlichkeit“ (Ulrich 2001: 23ff).

<sup>125</sup> Although we can temporary ignore our conscience, we are aware of the possibility of taking responsibility for our actions before anyone. Even if we deny it we acknowledge the existing possibility. Cf. Ulrich 2001:29.

‘applied’ business ethics tries to bring ethics *into* economic logic by completing or correcting it, but dismisses the fact that economic rationality is itself already founded upon normative presuppositions.

„Systematisch unberücksichtigt bleibt dabei, dass die (markt-)wirtschaftliche Sachlogik, die wirkungsmächtige ökonomische Rationalität, implizit oder explizit selbst immer schon einen normativen Geltungsanspruch erhebt, mit dem die ethische Vernunft unweigerlich in Konflikt gerät.“<sup>126</sup>

Ulrich argues here against two German business ethics theories supported by Peter Koslowski and Horst Steinmann. Koslowski understands business ethics in complete market competition as superfluous. Hence the task of business ethics is a correction of economic mistakes (*Ökonomie- oder Marktversagen*). Very similar, Horst Steinmann sees business ethics as a situational correction of the ‘profit principle’ (*Gewinnprinzip*)<sup>127</sup>. The focal point of Ulrich’s critique is that Koslowski and Steinmann – their theories can be seen as typical models of a common understanding of business ethics – suffer from a ‘stop of reflection’ on conditions of market economy and economic rational understanding itself. They do not question conditions of the market and economic rationality and presuppose both without clarification. Missing the necessary critical reflection leads to an affirmation of the status quo of conditions of the market economy, which serve specific social interests. Therefore, systemic-political arguments, whether *for* or *against* a functioning market economic solution for society, need a business ethical foundation.

Hence, business ethics in terms of the Integrative Economic Ethics is an ethical project in its entirety. If business ethics faces concrete situations, it has to present unconditionally applicable orientation for actions from a moral perspective. This means the context must be taken into account. However, business ethics, which is used for implementing or applying already discerned orientation of actions, is in its genuinely ethical task misunderstood. In this sense ethics provide a critical-normative orientation for actions and not directly applicable

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<sup>126</sup> Ibid: 95.

<sup>127</sup> This ‘profit principle’ is used dominantly in the German speaking area. Developed by Gutenberg it builds a scientific presumption for economic theory. The ‘Gewinnprinzip’ is a postulate that declares profit maximisation as the necessary condition for companies’ activities. Although it suggests being a value-free scientific presumption, it is indeed a normative postulate. However the only criterion or principle which is universally valid is the moral point of view. The ‘profit principle’ must be critically evaluated from this view point and cannot proclaim ethical neutralism. Cf. *ibid*: 413f.

knowledge.<sup>128</sup> This inappropriate understanding of business ethics leads to a “*two-world conception*”<sup>129</sup> of economics and ethics as separate spheres. From his point of view, Ulrich finds the Integrative Economic Ethics on a deeper level as he analyses the normative conditions of ethical reasoning in terms of a fundamental critical reflection. He tries to overcome both, the two-world conception, which divides ethics and pure economics, and the ‘stop of reflection’ of the so-called ‘applied’ ethics. Therefore it is necessary to clarify the normative dimension of economic thinking and acting first of all, in order to make it accessible for critical ethical reflection and argumentation in the next step. The normative content of economic rationality itself must be analysed in a critical manner without any reservation. Taking this as his point of departure, he lays the foundation for a life-conducive economics.

This approach introduces ethics in the currently mostly pragmatic self-understanding of mainstream economics.<sup>130</sup> Given the fact that pure economics itself is an ideal theory of rational behaviour, business ethics and economics are competitive normative rationalities. Both, the logic of ‘interhumanity’ on the one hand and the normative logic of the market on the other, claim to be a universal programmatic logic that determines society. The normative basis of economics must be reflected on in an ethically critical manner to protect economic rationality against abridgement and a vicious circle. In this sense doing integrative business ethics means entering the quest for a contemporary paradigm of economics as science and questioning the scope and method of economics in general.<sup>131</sup>

The author tries to clarify the relationship between economics and ethics by underlining the priority of ethics as normative logic of unconditional mutual acknowledgement in the community of all humans, over and against economics, which he sees as the normative logic of conditional co-operations between egocentric and success-orientated individuals.<sup>132</sup>

Ulrich bases his approach towards business ethics on modern discourse ethics. The normative conditions for reasonable economic behaviour is the argumentative communication of legitimate claims of all those who are involved in the economic process and affected by it.

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<sup>128</sup> “Ethik bietet kritisch-normatives Orientierungswissen, nicht anwendbares Verfügungswissen – sie ist keine Sozialtechnik für gute Zwecke“. Ibid: 101.

<sup>129</sup> Ulrich 1998: 5.

<sup>130</sup> Cf. Ulrich 2001: 119.

<sup>131</sup> Cf. ibid: 120.

<sup>132</sup> Cf. ibid: 121.

The unavoidable precondition involved in that process is the *socio-economic rationality*. Thus, economic rationality is enhanced by rational legitimacy as its constitutive condition. This means that the rational argumentation of the scarcity of resources and goods (*efficiency*) is inseparably intertwined with the question of dealing in an ethical and rational way with all social conflicts between those involved and affected by that process (*legitimacy*).<sup>133</sup> The question at stake is how economic behaviour could become both legitimate *and* efficient. The normative foundation of economic rationality must be reconstructed from the grounds of ethical rationality by an integrative regulative idea of reasonable economic behaviour. Ulrich describes the *regulative idea of social-economic rationality* as:

„[...] jede Handlung oder Institution [...], die freie und mündige Bürger in er vernunftgeleiteten Verständigung unter allen Betroffenen als legitime Form der Wertschöpfung bestimmt haben (könnten).“<sup>134</sup>

Social-economic rationality is characterised by a twofold dimension: legitimacy and efficiency. Economic actors are confronted with a scarcity of goods and resources (dimension of efficiency), which due to the relational character of human life lead to social conflicts between them (dimension of legitimacy). Thus efficiency is, despite the neo-classic idea of economic rationality, not working in an artificial social vacuum. Economism tends to lack the necessary ethical discourse about legitimacy and reduces social conflicts to the rationality of dealing with scarcity. If something is efficient for one person it does not inevitably mean that it is efficient for another. Therefore the necessary idea of efficiency is always linked to the question: *efficient for whom?* Consequently efficiency must be able to be<sup>135</sup> normatively justifiable in the community of all those involved or (directly or indirectly) affected through reason-based and argumentative communication. Through this idea of social-economic rationality, Ulrich founds the universally valid ‘moral point of view’ that forms the basis for reasonable economic behaviour. This is the ethical foundation of Ulrich’s approach. In this sense business ethics must be understood as part of political ethics with the purpose to secure or reconstruct the political-economic communication between free and responsible citizens.

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<sup>133</sup> Cf. figure below.

<sup>134</sup> Ibid: 123. Ulrich sees every action or institution that is or could be seen as legitimate form of net production by free and mature citizens through communication, which is driven by reason among all those involved or affected.

<sup>135</sup> The term ‘be able to be’ underlines like in the German quotation “könnte” the universal character of the regulative idea of a business ethical discourse. The rational-ethical discernment can take place as fictional or real discourse. Cf. *ibid*.

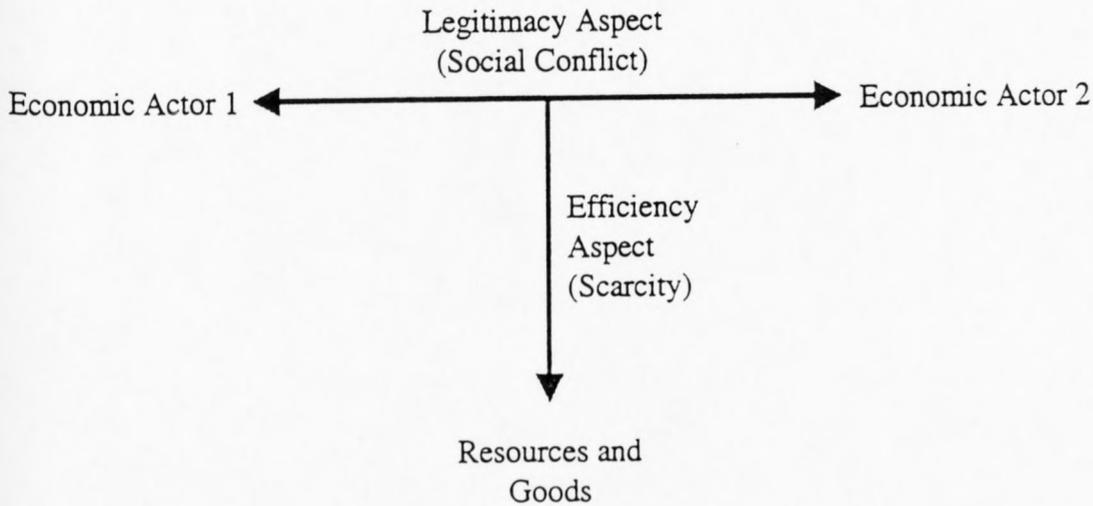


Figure: The two dimensions of socio-economic rationality<sup>136</sup>

This philosophical reflection on the methodology and self-understanding of economics in terms of “*practical socio-economics*”<sup>137</sup> opens the way for the three-dimensional task of Integrative Economic Ethics. First, the normative framework of pure economic thinking and acting (i.e. ‘economism’) must be analysed and fundamentally criticised (*chapter 3*). Second, a meaningful and legitimate way of economics must be clarified and evaluated according to its life-conduciveness (*chapter 4*). Third, the *topos* of ethical rationality, concerning economic behaviour and a just and well-ordered society of free and responsible citizens, has to be specified (*chapter 5*).

<sup>136</sup> Cf. Ulrich 1998: 11.

<sup>137</sup> Cf. *ibid*: 2.

### 3. CRITIQUE OF ECONOMISM<sup>138</sup>

Why is the corporate world increasingly developing an uncritical point of view towards ‘constraints’ of economics? This question and other coercions of thought must be critically reflected on before the approach of business ethics as Integrative Economic Ethics can be developed in its depth. Ulrich calls this the critique of ‘economism’ (*Ökonomismuskritik*).<sup>139</sup>

#### 3.1. THE ARGUMENT OF ‘CONSTRAINTS’ – AN ECONOMIC DETERMINISM

Ulrich reflects critically on the argument of economic constraints (*ökonomischer Sachzwang*), which denies the *possibility* of doing business ethics in an integrative way “due to the *force of circumstances* especially competition in market situation”<sup>140</sup>. This argument is driven by the simple common opinion: “*The market forces us to act in the way we do. Our hands are bound!*” This argumentation is based upon the hypothesis of inherent economic ‘necessities’ (of defending one-self in the market competition) or ‘impossibilities’ (of acting in a moral way). Thus the market conditions prevent the application of business ethics in real corporate life. This viewpoint leads to economic determinism. This uncritical belief has its intellectual-historical roots in the Calvinistic ethos.<sup>141</sup>

<sup>138</sup> For the following paragraphs of this chapter cf. Ulrich 2001: 131-206 (II. Wirtschaftsethische Grundlagenreflexion I: Ökonomismuskritik).

<sup>139</sup> Economism is an ideology, which postulates that the structure of corporate life can only be extracted from pure economic thinking itself. Ulrich here follows (cf. *ibid*: 127) Gerhard Weisser, who shaped this term: “Eine auch heute noch weit verbreitete Meinung glaubt, dass die Postulate zur Gestaltung des Wirtschaftslebens aus unserem Wirtschaftsdenken gewonnen werden können und müssen. (...) Diese Meinung nennen wir Ökonomismus.“ Cf. Weisser G 1987. *Die Überwindung des Ökonomismus in der Wirtschaftswissenschaft*. In: Weisser G. *Beiträge zur Gesellschaftspolitik*. Göttingen: 573-601. This type of thinking that follows the “logic of the market” (Ulrich 1998: 15) is generalised and extended over all areas of societal life even to the extent that the market is seen “as a guarantor of a well-ordered society” (*Ibid*: 3). But this is elaborated in more detail in the following chapter.

<sup>140</sup> Ulrich 1998: 8 (highlighting is original).

<sup>141</sup> Referring to Max Weber, Ulrich sketches this development of thought in the history. The capitalistic spirit arose from the inner-most forms of Christian piety. In the middle ages life was determined by a bipolar tension between earthly life and the afterlife, worldly and spiritual sphere; monks, who were supposed to live an ascetic and spiritual life, and the common believers that did not have to follow the same rigorously moral path. In Catholicism the believer could be imperfect and escape the tension between religious duty and sinful existence through letters of indulgence. In contrast to that, Calvinistic teaching views every believer as someone worshipping God through words and deeds in every sphere in life. This leads to a disciplined and purposeful way of life, which serves the glory of God. Work becomes the dominant content of life and is aligned with modesty, moderation and an ascetic attitude towards consumption and joy. Work is a God-given task. Although the believer is not able to earn God’s grace, he or she can experience signs of blessing and predestination, which can occur in worldly success. Unrestrained striving for private success was not socially acceptable in medieval thought, but now became possible and was even demanded. Ambitious striving for success corresponded with a dispassionate way of life and established a capitalistic way of thinking. Private success in economic terms thus received divine justification. Economic success increases the glory of God. “[...] *Da der Erfolg der Arbeit das*

Quite to the contrary, the central premise of the Integrative Economic Ethics is that, it *can* be the enlightened intention of every human being as moral subject to renounce economic aims or strategies to success if they cannot be legitimated with respect to all those who are involved or affected. Ulrich develops the idea of self-restriction and self-limitation in striving for profit and success. Every human is principally able to disobey economic constraints. This leads to the question at stake, how is moral behaviour possible if it does not serve one's own interests and causes economic disadvantages. – Whether it *is* possible, is indeed the crucial presumption of the ethically rational approach and – in general – for the morality of mankind itself. Exactly this inevitable question is mostly not addressed by approaches of business ethics in terms of 'applied' ethics. The approach towards ethics as 'applied' ethics wants to bring ethical reasoning *into* economic rationality, and thus acknowledges it as a sphere, which is free of ethics. However it must be made very clear: there is no such thing as non-ethical thinking or acting! Economic rationality is not at all value-free or neutral. Following the idea of efficiency always perpetuates the *status quo* of already 'given' power relations and thus does not serve social justice.<sup>142</sup> In contrast, the normative logic of interhumanity starts from the point of view of the moral equality of all humans as far as their human dignity and human rights are concerned, according to which all human beings equally earn unconditional respect. Thus the normative logic of interhumanity is determined by responsibilities and moral rights whereas the economic rationality is driven by power and counter-power.

Consequently we are not slaves of the economic constraints of the market, but free moral subjects. Reasons for actions never force us to follow them. Humans act intentionally. We search for reasons for already discerned intentions. Constraints cannot force us to follow them, because they address our ethical reasoning as free subjects. They clarify why we feel that an action, which we already intended, is necessary or meaningful for us. Under the presumption of freedom of choice, humans can decide what they want and principally have the ability to disobey so-called constraints. In this regard Ulrich refers to Kant who distinguishes between cause and reason. Reason can never be regarded as a determining

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*sicherste Symptom ihrer Gottgefälligkeit ist, [...] ist der kapitalistische Gewinn einer der wichtigsten Erkenntnisgründe, dass der Segen Gottes auf dem Geschäftsbetrieb ruht*" (Weber, M. *Wirtschaft und Gesellschaft*. 5<sup>th</sup> edition Tübingen 1972: 719). Though not intended by Calvinistic teaching, the ground for pure economic rationality was established and justified. Here-in, the impersonal logic of economics found its legitimation and motivating force. This cultivated the intellectual foundation for modern economic theory and practise. Intended to promote a pious way of life, the resulting economic way of thinking became independent and developed into a self-centred unsocial economism. Cf. Ulrich 2001: 132ff.

<sup>142</sup> Cf. the following paragraph with Ulrich 1998: 7.

cause.<sup>143</sup> Constraints have no empirical ground, moreover they derive from a normative choice and are merely experienced as force. However the freedom of choice has priority over its consequences. Therefore Ulrich describes constraints with the following words:

„Es ‚handelt‘ sich letztlich nicht um Sachzwänge, sondern um Denkwänge.“<sup>144</sup>

Drawing normative results from empirical facts is a naturalistic fallacy.<sup>145</sup> Thus reasons for ethical behaviour are of an unempirical nature and can only be discerned through argumentative communication of all legitimate claims in a community of responsible citizens. Claims that are in conflict with each other must be balanced by the regulative idea of socio-economic rationality. Our moral duty calls us not to execute strategic purposes if we cannot justify them to others or ourselves from a moral perspective. It is not constraints that force us to do anything, but our own economic interests, which confront us with these *pretended* necessities. However we have to be obedient to our moral duty even if our planned economic actions are justified in the light of the regulative idea of social-economic rationality. In this case the economic actor has to secure his economic survival through alternative ways. The claim of an economic actor for making profit *can* be justified, but only if it is acknowledged as a legitimate claim by all those that are affected by it. Yet, maximizing one's own success in a strict egocentric manner is in general no legitimate claim, because it is based on a selfish preliminary decision that – despite all other claims of those who are involved and affected – contradicts the “primacy of morality over the logic of the market”<sup>146</sup>. Exactly this crucial insight is for Ulrich constitutive for all serious economic ethics.<sup>147</sup>

We find the same obstacle in ethical thinking on a *structural level* of the market economic system. The anonymous and obstinate structure of the market system eliminates the inter-subjective character of trade and correspondence between individual supply and demand determined by its life-practical value. The monetary dimension in the market adds to the personal interaction a fictional, ‘objective’ measurement: the price. The market is determined by impersonal data and profit, which is its only driving and ruling force. The result is an

<sup>143</sup> Ulrich uses here (Ulrich 2001: 131) Immanuel Kant, who distinguishes between causality of freedom (reason) and causality of laws of nature (cause). Cf. Kant, I. Kritik der reinen Vernunft. Edited by W. Wieschedel. 5<sup>th</sup> edition. Frankfurt 1981: 426.

<sup>144</sup> Ibid: 131.

<sup>145</sup> Cf. Ulrich 1998: 4.

<sup>146</sup> Ibid: 7.

<sup>147</sup> Ibid.

anonymous system with a strong and obstinate dynamic that selects its own members through competition among one another by a simple factor, called efficiency.<sup>148</sup>

„Der Markt sucht sich selber jene Wirtschaftssubjekte heraus, die ihm am konsequentesten gehorchen.“<sup>149</sup>

Following pure economic purposes regardless of other considerations, causes the best financial performance and thus secures the future of the corporation. This has multiple effects. Whereas the Calvinists chose the ambitious, self-disciplined and productive life- and working-style on a voluntary basis, we *have to* ‘function’ in that way.<sup>150</sup> In the development of modern economics the religious motivation and Christian background were lost. This led to an impersonal, independent economic system with a strong self-legalistic dynamic. Ulrich’s point of view is that these merciless rules of competition of the market system tend to affect all spheres of life. Therefore we face the danger to become a society totally determined by the market (*totale Marktgesellschaft*).<sup>151</sup> This questions the socio-political structure of society: *How do we want to structure and form our society?* – The political challenge (*Aufgabe der Ordnungspolitik*) – from the viewpoint of an integrative economic ethics – is to establish rules with ethical intentions and a frame for competition on the market in order to prevent stringently selfish economic and thus immoral behaviour.<sup>152</sup> Ulrich promotes the idea of a

<sup>148</sup> The factor of selection is very simple. The single corporate subject of the market has to win the competition at least against other less competitive actors through passing on an economic advantage caused by the company’s efficiency to the customer, either through a cheaper price for the same product or a better product for the same price. This system calls for actions like increasing productivity, reducing costs, introducing innovations and cause a stronger loyalty of customers to name some examples. Only competitive subjects survive this dynamic. Others get eliminated, as they do not find customers anymore, because of the limit of demand. They go bankrupt and employees loose their income. Cf. Ulrich 2001:139,141.

<sup>149</sup> Ibid: 139

<sup>150</sup> This refers to Max Weber’s statement (cf. *ibid*:140): “Der Puritaner *wollte* Berufsmensch [d. h. zur erfolgreichen Selbstbehauptung am Markt ‚berufen‘, P. U.] sein, – wir *müssen* es sein.“ M. Weber, *Die Protestantische Ethik und der Geist des Kapitalismus* (1904/05). In: Weber M. *Gesammelte Aufsätze zur Religionssoziologie I*. 9<sup>th</sup> Edition. Tübingen 1988: 203.

<sup>151</sup> The market causes a self-maintenance with a strong own dynamic and autonomy (inherent laws) and acts regardless to the individual subject merciless and impersonal. The system initiated by free subjects, who draw their intention from religious roots, has become a force and necessity for all. Thus Weber calls the market economy a “slavery without a lord“ (Weber, M. *Wirtschaft und Gesellschaft*. 5<sup>th</sup> Edition Tübingen 1972: 709). Cf. *ibid*: 141.

<sup>152</sup> Constraints are biased normative decisions and represent specific interests of investors (shareowner-value-doctrine). The market is ruled by a force of profitability and calls its subjects to conform to the system.

“Die Berücksichtigung ‘betriebsfremder Interessen’ [d.h. ‘alle Interessen, die nicht primär an der nachhaltigen Dauer-Rentabilität des Unternehmens orientiert sind’; Max Weber] müsste, folgt man der Systemrationalität, stets auf Kosten der Wettbewerbsfähigkeit des Unternehmers gehen, der damit riskieren würde über kurz oder lang aus dem Markt eliminiert zu werden.“ *Ibid*: 149.

Economic constraints (*Sachzwänge*) are in reality ideological constraints (Denkzwänge) driven by the interest of ‘capital’. Therefore ethical criticism must have a broader approach than the one-dimensional thinking within the logic of the system itself. This economic determinism causes a ‘stop of reflection’ before empirical conditions that are reinterpreted as normative. The problem of constraints is actually a problem of reasonableness

life-conducive market economy (lebensdienliche Marktwirtschaft). Through a legal framework politics can limit the intensity and extremeness of market-competition. These need to be aligned to a moral self-limitation on a corporate and private level (the topology of business ethics will be discussed later). The legitimate right for self-maintenance has to be balanced with the duty of self-limitation. The business ethical discourse must overcome the dichotomy of self-maintenance and self-limitation.

### 3.2. 'MORALITY OF THE MARKET' – AN ECONOMIC REDUCTIONISM

The uncritical attitude towards free market economy and the willingness to tolerate the effects of economic rationality finds its reasons in the strong historical roots of the common liberal business ethos. This ethos refuses the *necessity* of business ethics and believes in a 'morality of the market'. The market itself has a normative ground. The 'market principle' is seen as the guarantor of the moral principle, which provides the basis "for a normative turn of mutually advantageous exchange towards a pretended morality of the market".<sup>153</sup> Consequently there is no reason for self-limitation of economic rationality. The common good of society increases through the free market economy. The market principle of generating profit and improving efficiency, itself automatically causes value for all. A manager may say: "*I am sorry to act in this inconsiderate economic way, but at the end it's for the benefit of society.*" The foundation for this logic is the hypothesis of an increasing common good through economic rationality. A strong unconscious belief in the 'metaphysics of the market' representatively overtakes for us the moral duty of taking responsibility and legitimising our actions. This market mechanism causes an advantage for everyone through unbiased purpose-orientation. The political idea of an unrestricted 'free' market economy is therefore identified with a well-ordered and just society of free citizens.<sup>154</sup>

The history of economic thought finds its point of departure in the Calvinistic ethos that is characterised by a belief in the 'invisible hand of the market', shaped by Adam Smith, the pioneer of liberal political economy. Smith builds his idea upon a creational-theological

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(*Zumutbarkeitsproblem*). The solution can be seen on a twofold level. On the one hand self-limitation of the individual economic subject and on the other a less intensive market competition. The latter would be a political task. There is a priority of politics over and against the logic of the market, but the economic constraints tend to suggest an economic determinism without choice either on a political or individual level. Moral behaviour under market-conditions, however, is possible and not necessarily an economic disadvantage. Cf. *ibid*:146ff.

<sup>153</sup> Ulrich 1998: 9.

<sup>154</sup> Cf. *ibid*.

background, as Max Weber clarifies. The world is ordered by God and therefore in one way or the other an ethically and meaningfully orientated cosmos.<sup>155</sup>

“In jedem Teil des Universums beobachten wir, dass die Mittel auf die genaueste und kunstvollste Weise den Zwecken angepasst sind, die sie hervorzubringen bestimmt sind.“<sup>156</sup>

For Smith in the *social* world, the meaningful and divine order is difficult to observe. The reason for this lies in the fact that human beings by nature tend to be driven by selfish interests. As a result natural economic behaviour of humans must be part of God’s wisdom and plan to order the world in a meaningful way. This idea is the foundation for Smith’s confidence that economic behaviour is a divine blessing. The economic subject is led by a divine invisible hand that achieves a divine purpose: increasing the common benefit.

„Nicht vom Wohlwollen des Metzgers, Bauers und Bäckers erwarten wir das, was wir zum Essen brauchen, sondern davon, dass sie ihre eigenen Interessen wahrnehmen. Wir wenden uns nicht an ihre Menschen-, sondern an ihre Eigenliebe, und wir erwähnen nicht die eigenen Bedürfnisse, sondern sprechen von ihrem Vorteil.“<sup>157</sup>

Therefore purely selfish and unintended economic behaviour leads to the best possible outcome for everyone. The question of meaningful and just economic behaviour was seen as the responsibility of a superior power. A theology of natural law and a teleological worldview culminated into an economic ideology that lost its divine background. In other words: The invisible hand of God became the invisible hand of the market. This has as a consequence that all moral questions can be translated into purely economic terms, which means an *economic reductionism*. Following one’s own interests in a consequently stringent way is through this normative framework not only justified, but also demanded. The following view is still valid today for many neo-liberal businessmen:<sup>158</sup>

“Mit dem Bewusstsein, in Gottes voller Gnade zu stehen und von ihm sichtbar gesegnet zu werden, vermochte der bürgerliche Unternehmer, wenn er sich innerhalb der Schranken formaler Korrektheit

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<sup>155</sup> Cf. Weber, M. *Wirtschaftsethik der Weltreligionen* (1906). In: Weber M. *Gesammelte Aufsätze zur Religionssoziologie I*. 9<sup>th</sup> Edition. Tübingen 1988: 564; cf. Ulrich 2001: 168.

<sup>156</sup> Smith according to *ibid*.

<sup>157</sup> Smith according to *ibid*: 165.

<sup>158</sup> “Dieses sogenannte ‘Gewinnprinzip’ [d. h. Gewinnmaximierung als ethisches Gebot, H.H.] spielt bis heute, ja derzeit vielleicht mehr den je eine so fundamentale ideologische Rolle, dass seiner Rechtfertigung bzw. Kritik besonders für die Frage der Notwendigkeit oder der Gegenstandslosigkeit von Unternehmensethik in der zeitgenössischen Diskussion immer noch eine grundlegende Bedeutung zukommt.“ *Ibid*: 173.

hielt, sein sittlicher Wandel untadelig war und der Gebrauch, den er von seinem Reichtum machte kein anstößiger war, seinen Erwerbsinteressen zu folgen und sollte dies tun.“<sup>159</sup>

Doing business ethics from this angle means to approach ethics as a means to the end of a more economic rationality. Ethics is in this way reduced to a profitable factor and moral reasoning is dismissed by this business ethics as “applied economics”<sup>160</sup>. Furthermore the metaphysics of the market can never be regarded as an ethical foundation, because it supports nothing but social injustice as it stabilises the status quo of power inequalities in society. Although the model of market exchange is believed to be a mutually beneficial, it is, in fact, a biased and incomplete system. We are not equally equipped with the same measure of resources when we enter into the competition. Therefore the logic of the market divides humans in winners and losers from the start.

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<sup>159</sup> M. Weber, Die Protestantische Ethik und der Geist des Kapitalismus (1904/05). In: Weber M. Gesammelte Aufsätze zur Religionssoziologie I. 9<sup>th</sup> Edition. Tübingen 1988: 198. Ibid: 172.

<sup>160</sup> Ulrich 1998: 6.

#### 4. ECONOMICS IN REAL LIFE PERSPECTIVE – A QUESTION OF MEANING AND LEGITIMACY<sup>161</sup>

Contrary to the belief in the ‘metaphysics of the market’ and the constant progress of common benefits through increasing free market economy, the reality today looks different. The world is confronted with a ‘modernisation of scarcity’ and a ‘new poverty’. Although we are provided with a profusion of unnecessary or even totally superfluous products, we are facing an increasing shortage of essentials for a qualitative life. Despite the rising productivity and economic growth the feeling of scarcity expands even in the area of vital necessities. Fundamentals like living space, social cover, precaution for old age and medical provision can only be supplied by higher costs that take enlarging portions of the income.

Not only goods, but also jobs are scarce. More and more people loose their jobs. The former rareness of vital goods has changed today to a lack of work. As a result the provision of the essential financial living base and the integration of people into society with a feeling of being needed fall short.

The political and economic core question is no longer how the life-quality of all can be enhanced, but how to enlarge the sale of products and services. The political formula is: increasing sales automatically lead to a decline of the unemployment rate. This paradoxical situation causes ever greater scarcity: the limitation on natural resources (ecological scarcity) and the rareness of good working, education and living possibilities (social scarcity). The tempo and rhythm of the business world is increasingly dominating our everyday life, so that people start dreaming of the new slowness (scarcity of time).<sup>162</sup> Two new types of consumption reduce the quality of life. The demands for goods that haven’t been necessary in the past, but are compulsory for a good life today, increase objectively (for example replacing sprinkling water with normal tap water for drinking). This *defensive consumption* together with *compensatory consumption*, which means people who are not satisfied in their work and must compensate for it by buying products, form the two types of consumption.

Instead of emancipation from vital necessities and gaining free time for more important things in life than making money, we are nowadays forced into an increasing dependency on the economy on a subjective and objective level. This leads us to the question:

<sup>161</sup> For the following paragraphs of this chapter cf. Ulrich 2001: 207-288 (III. Wirtschaftsethische Grundlagenreflexion II: Vernünftiges Wirtschaften aus dem Blickwinkel der Lebenswelt).

<sup>162</sup> There are several signs that confirm this observation. Ulrich is referring a famous novel by Nadolny, S.: “Entdeckung der Langsamkeit“ (München 1990). Cf. *ibid*: 222.

“Warum eigentlich bleiben wir bezüglich unseres kulturellen Lebensentwurfes mehrheitlich einer sich bloß technologisch weiter modernisierenden ‘Ökonomie der Armut’ verhaftet?”<sup>163</sup>

In taking this question seriously, Ulrich wants to focus on the *meaning of economics*. Economic behaviour means to create value<sup>164</sup> and this more in terms of quality than of quantity. The purpose of economics is therefore to enhance the quality of life. The reason for the existence of economics is the human being.

“Wirtschaft gibt es, weil es den Menschen gibt”<sup>165</sup>

The important criterion of business is not to increase the market value, but to serve life conduciveness, even though there are constraints. The question of the *meaning of economics* (*Sinnfrage*) is the question of *which values* are supposed to be created. Economics should be conducive for good life and life in general should have priority over the egocentrism of the economic system. This teleological-ethical perspective is complemented by the deontological-ethical dimension of the *legitimacy of economics* (*Legitimationsfrage*). Economic behaviour creates value, but the crucial question is: *value for whom?* The question of justice and fair distribution of profit is at stake. Economics needs to be determined by the social rules of a well-ordered society. Economics has to take responsibility for the quality of social life. Politics has a primacy over constraints of the market and its normative presuppositions. To put it more briefly: The concept of a life-conducive economy has a twofold dimension: *economic behaviour must “make sense in the light of the cultural draft of ‘good life’ (Aristotelian dimension of ethics) as well as [it has to be] justifiable from the moral point of view, with regard to the just and solidary living together (Kantian dimension of ethics)”*<sup>166</sup>.

The philosophically foundational idea of *political liberalism* is too important to tolerate its perversion by a crude economic liberalism. A liberal plan of a social system for a just and well-ordered society of free and equal citizens has to be developed: All citizens have to be autonomous and integrated members of society; the society itself must be a network of equal

<sup>163</sup> Ibid: 224f.

<sup>164</sup> The German roots for the word “wirtschaften” come from the phrase “Werte schaffen“, which means to create value. Cf. *ibid*: 203.

<sup>165</sup> Rich, Arthur, *Wirtschaftsethik* Vol. II, Gütersloh 1990, 17; cf. *ibid*: 203.

<sup>166</sup> Ulrich 1998: 2.

unions of citizens and real freedom and equal chances for all must be provided. Concerning the realisation of this idea of a society of citizens, the relationship between social-economic rights and the rights of citizens must be discussed. For Ulrich the *economic citizen* (*Wirtschaftsbürger*) is understood as an economic subject *and* a moral person. In the same way the economic citizen depends on just behaviour of all other economic subjects and members of society and is therefore reflexively interested in legitimacy of his own economic actions. Thus freedom of economic citizens is not only negative freedom in terms of the absence of force, but also positive freedom, which means the ability to act.

Ulrich observes that our society today faces the challenge to further develop the idea of political liberalism, which must lead to the ‘economic rights of citizens’ (*Wirtschaftsbürgerrechte*), or to bury it as an unrealistic utopia. He roots human rights rather in the basic ability of humans (*Grundfähigkeitsansatz*) than in their basic needs (*Grundbedürfnisansatz*). To enable humans to live responsibly and to satisfy their needs in the light of their personal plan for life, is the socio-cultural precondition for a good life. Ulrich refers to Amartya Sen, who was one of the first economists who acknowledged that human rights are related to the ability of developing basic human capabilities and accessing indispensable resources for living a self-determined life. The guarantee of this right, together with the support of the basic capabilities, safeguards a dignified existence for all humans. This supports the emancipation of mankind in the economic system and gives people real freedom and equal chances.<sup>167</sup> The precedence of these fundamental economic rights must be secured over the demand of the free market. These rights have two important tasks: on the one hand the *integration* into the process of production and consumption and on the other hand giving everyone a chance for a partial *emancipation* from the system and its pressure to function in the ‘right’ way. This regulative idea is called the ‘dual form of life for all citizens’.

“Sie verbindet die partielle Teilnahme aller Wirtschaftsbürger am ökonomischen Systemprozess *und* die partielle Emanzipation aus ihm zum neuen, *verallgemeinerungsfähigen* ‘Normalfall’ der sozialökonomischen Existenzweise in der fortgeschrittenen Bürgergesellschaft.”<sup>168</sup>

As a result, self-maintenance in the economic system and autonomous self-realisation has to be balanced. The participation in the economic system must be conceived as a limited right.<sup>169</sup>

<sup>167</sup> Ulrich 2001: 283.

<sup>168</sup> Ibid: 269.

<sup>169</sup> Ulrich underlines interdependence between the universal claim of economic human rights and their limits. For example the right for personal property is not unlimited. The factor that limits ownership is for Ulrich its

Ultimately it is about all capabilities and rights that are necessary to live a personally coherent and successful life in a well-ordered society. If economic rights of citizens pass the following three criteria they can be regarded as such. They have to be valid *universally*. They have to have *priority* over all other specific rights and must be *complementary*. Ulrich suggests the institutionalisation of economic rights on national and international level, which may lead to a universal project challenged by globalisation for an order of world-citizenship and international law.<sup>170</sup>

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relationship to the personal working performance. Otherwise an unjust accumulation of property cannot be precluded. A modern example would be the extremely high income of a manager. Cf. *ibid*: 271ff.

<sup>170</sup> Ulrich (*ibid*: 284) shares here Kant's vision of a well-ordered worldwide society of free and equal citizens. (Cf. Kant, I. *Ideen zu einer allgemeinen Geschichte in weltbürgerlicher Absicht* (1784). In: *Werkausgabe* Bd. XI. 6<sup>th</sup> Edition. Frankfurt: 1982, 31-50). In order to safeguard the status of citizenship in this consistently economic way, it has to be either a universal project or only a poor cover for privileges. (Cf. Dahrendorf, R. *Über den Bürgerstatus*. In: B. van den Brink/ W. van Reijen (ed.). *Bürgergesellschaft, Recht und Demokratie*. Frankfurt: 1995. 29-43).

## 5. THE TOPOLOGY OF ECONOMIC ETHICS<sup>171</sup>

If the ideas of a life-conducive economy and a well-ordered society is not to remain a *u-topia* – that is literally: without a locus<sup>172</sup> –, they have to be specified and located. This leads to the question of ‘topology’ of economic ethics. *Who is responsible for ethical behaviour?*

As indicated above, Integrative Economic Ethics does have consequences on two levels: on the level of the single citizen (*Wirtschaftsbürgerethik*) and on the political level of society (*Ordnungsethik*). The single citizen as moral person *and* economic subject has moral duties due to his membership of a liberal society and citizenship in the *res publica*.<sup>173</sup> He belongs to the “*general public*” which means the “regulative idea of an unlimited community of moral persons who are willing to participate as reasonable citizens in the public deliberation on all matters of [...] ‘public affairs’”.<sup>174</sup> As a result a socio-political framework has to be constructed that makes moral behaviour and self-limitation in a globalised context *possible* in principle. This “*ethics of socio-political*”<sup>175</sup> order has the responsibility to protect society’s *vital* order as the prerequisite for a life-conducive economy over against a crude neo-liberalism with its political approach of pure economism. Political economy therefore has to “recognize and protect free public deliberation against the interference of economic as well as political power”<sup>176</sup>. In this light a third *topos* with an increasingly public relevance has to be clarified: *corporate ethics*. To this latter *topos* we will turn presently.

The question is at stake is whether stringent striving for profit is a legitimate claim for the company or not. This question is essential for the whole debate around business ethics. That a company is profit orientated can be assumed as an *empirical thesis* or *normative postulate* either on the level of *personal orientation* and its actions or on the level of *system mechanism* and its functions. This matrix, which is analysed in the following section, opens up four

<sup>171</sup> For the following paragraphs of this chapter cf. Ulrich 2001: 289-462 (IV. Wirtschaftsethische Topologie: „Orte“ der Moral des Wirtschaftens).

<sup>172</sup> Ulrich 1998: 13.

<sup>173</sup> The virtue of citizens have to fulfil four minimal demands (cf. Ulrich 2001:316):

1. The citizen must be willing to reflect critically on his own preferences and attitudes (*Reflexionsbereitschaft*);
2. he must be open for impartial and fair principles and rules of a deliberative processes (*Verständigungsbereitschaft*);
3. be prepared for compromises in areas of dissent (*Kompromissbereitschaft*);
4. and ready for a public proof of legitimation for his private behaviour (*Legitimationsbereitschaft*).

<sup>174</sup> Ulrich 1998: 13. Ulrich understands his concept of *deliberative democracy* as integrating both, the regulative idea of the general public as ethical pole and the reality of politics as factual pole.

<sup>175</sup> Ibid: 14.

<sup>176</sup> Ibid.

possible points of view that assume profit orientation as constitutive for a corporation on empirical or normative grounds and personal or systemic consequences.

First, seeking for profit- or advantage (viewed on a personal level and understood as an empirical thesis) arises from the subjective motivation of single businessmen. The assumption that most businessmen support this motivation is very uncertain and highly questionable<sup>177</sup>. If there are empirical grounds, one has to be aware not to translate them to a normative argument, which would be a categorical ethical mistake.

Second, much more common is the attitude that it is the moral duty of businessmen and entrepreneurs to make profit. This capitalistic corporate ethos is expressed in the famous quote from Milton Friedman:

“The social responsibility of business is to increase its profits” (- and nothing else).<sup>178</sup>

As a consequence there is no difference between the economic constraints and moral duties. However, economic interests – obviously – need some kind of boundary in order not to shift into extremes. Therefore Friedman admits that to “make as much money as possible” must be attempted, “while confirming the basic rules of society, both those embodied in law and those embodied in ethical custom”.<sup>179</sup> Ethical custom itself is not critically questioned and is suggested to be very clear, although it is not. Autonomous and unconditional ethical reflection seems not to be necessary and not even possible. The rules of market competition and the structure of the system of the free market itself are of compulsory nature and normative character.

Third, reasons for this ideology often lie in so-called economic constraints, which we have already discussed above and now find as the third possible viewpoint in this matrix on profit orientation of the company. This opinion excludes any kind of ethical question and understands the need for profit orientation of the corporation as an empirical fact in the economic system. However, keeping the primacy of ethics in mind, these constraints are always decisions of free choice orientated towards profit and therefore can never be regarded

<sup>177</sup> Ulrich refers to Adam Smith, Amartya Sen, Amitai Etzioni or Jon Elster to show that the search for profit is only one among many other motives. Multiple dimensions are suggested as motivation for businessmen. Cf. Ulrich 2001: 399f.

<sup>178</sup> Ulrich 2001: 400. Cf. Friedman M. The social responsibility of business is to increase its profit. In: The New York Times Magazine, 13.09.1970, 32-33, 122, 124 and 126.

<sup>179</sup> Ibid: 32

as deterministic.<sup>180</sup> The possibility of a company taking “*betriebsfremde Gesichtspunkte*”<sup>181</sup> into account along with the principle to enlarge profit, is a question of taking responsibility (*Verantwortbarkeit*) and how far economic actors can be demanded to restrict themselves (*Zumutbarkeit*).<sup>182</sup> Finding an excuse in ‘objective’ economic constraints is an inconsistent ethical approach and is like the following viewpoint characterised by a stop of ethical reflection.

Fourth, the profit orientation as normative postulate on a systemic level is transformed into a normative constitutive ‘profit principle’. It is not necessary to question this principle as it is rooted in the normative framework of the moral of the market, which can be characterised as a form of economic determinism. The framework of the market economy itself is the *topos* of ethics. However this framework cannot be taken for granted in a kind of positivistic manner and needs ethical reflection. This approach occurs in the shareowner-value concept, which is a consistently private model focusing solely on interest of shareowners. Claims of other stakeholders are not taken seriously as legitimate interests, but are regarded as opportunities to extend their own shareowner value in the long-run. Legitimate claims are used as means to an end. Due to the metaphysics of the market that provides the moral framework, the private motive to maximize profit is congruent to public interest.

The profit-orientation per se cannot be a foundation of a solid business ethics. Seeking profit is only *one* value and *one* dimension of the whole economic process of creating value. The orientation towards business success is one claim besides others and depends on its legitimacy. It is precisely the task of business ethics to ask which values must have priority over striving for profit. There is no other *principle* than the ‘moral point of view’ (*Moralprinzip*).

Ulrich observes the profit-principle as a most important criterion in the debate and discerns, depending on their relationship to this principle the three main conceptions of corporate ethics.<sup>183</sup> There is functional, corrective and finally integrative corporate ethics.

<sup>180</sup> Ulrich observes that the feeling for these constraints and the limits of own choices increase depending on the gaining interest to make profit. Cf. *ibid*: 403.

<sup>181</sup> Max Weber 1972: 79.

<sup>182</sup> In fact, “only a restricted measure of self-abandonment can be demanded from them. But a certain measure of self-restriction with regard to private advantage must always be demanded from everybody.” Ulrich 1998: 8.

<sup>183</sup> “Der Haltung gegenüber dem ‚Gewinnprinzip‘ kommt in der Diskussion um die Fundierung von Unternehmensethik eine derart grundlegende Rolle zu, dass sich die wichtigsten Ansätze systematisch nach dem Gesichtspunkt ordnen lassen, wieweit sie es durchbrechen und ethische Ansprüche an das unternehmerische

The functional approach considers ethics as a factor for success.

“Sound ethics is good business in the long run.”<sup>184</sup>

The cost of ethics can be seen as investments to safeguard the company's future success. Strategic cleverness demands corporate ethics as a factor to increase the profit from a long-term perspective by sustaining a good image and goodwill in public and motivating employees. But this argumentation, as long as it uses the strategic cleverness as basic motivation, it is not ethical at all. If the categorical difference and hierarchy between ethical and strategic arguments are secured, the strategic advantages of ethical decisions can be used as accompanying arguments on a second level.

“Die Quintessenz des integrativen Ansatzes lautet: Es ist nicht alles unmoralisch, was unternehmerischen Erfolg bringt – und auch nicht alles unwirtschaftlich, was ethisch verantwortbar und sinnvoll ist.”<sup>185</sup>

As already mentioned, the ‘invisible hand’ does not guarantee the ethical quality of an action. Corporate ethics in this sense is allowed to use clever economic arguments, but its unconditional critique cannot be limited.

Furthermore there is a donation-orientated approach. It sees the task of corporate ethics in donations ‘*post festum*’, which means after gaining profit by all means and without any ethical reflection. Although charity is a partial exclusion of the principle of maximising profit it is a completely inconsistent view. The result is schizophrenic behaviour, which is totally unethical, because all spheres in life have to be reflected on ethically. Despite this fact this view was wide spread and has few supporters.<sup>186</sup> Today the insight that companies must give account of how and by which means they earned their money becomes more and more common. Therefore this approach gets only peripheral support in the corporate ethical discourse.

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Handeln mit den unternehmerischen Selbstbehauptungsbedingungen im marktwirtschaftlichen Wettbewerb in nicht-ökonomischer Weise zu vermitteln vermögen.“ Ulrich 2000: 416.

<sup>184</sup> Cf. Baumhart, R. C. How Ethical Are Businessmen? In: Harvard Business Review 39 (1961). Vol. 4. 6-19 and 156-176.; here 10. This view is shared by many other publications. Cf. *ibid*: 419.

<sup>185</sup> Ulrich 2001a: 8.

<sup>186</sup> The understanding of corporate social responsibility in the US in the 60s and 70s was often understood in this way and is expressed in the statement: “Corporate social responsibility is fine, if you can afford it”. Cf. Ulrich 2001: 423.

Another largely supported way of doing corporate ethics attempts self-regulation and self-limitation of profit seeking in *some* situations: the corrective approach. This most common opinion of corporate ethics gives up the principle that profit has to be maximised at all cost while acknowledging its ethical correctness in ‘general’ and ‘normal’ situations. Under ‘normal’ circumstances (i.e. a “workable competition on open markets”) the market results are moral, so that it is the task of ethics to react only when ‘market failures’ occur (i.e. the market does not work perfectly or sufficiently).<sup>187</sup> The profit-principle itself has no ethical grounds, although it is viewed as moral by those that promote it. This ethical viewpoint is congruent with the one of ‘applied ethics’ mentioned above and opens up a two-world conception between ethical reflection on the one hand and the logic of the market on the other. This method is not coherent and suffers under a stop of ethical reflection.

Only corporate ethics in terms of integrative ethics can do justice to the universal moral point of view in a consistent way. To see the purpose of a company in generating profit is a free choice and legitimate as long as it can be justified in the light of all those who are involved or affected by the action of the company. Striving for profit and success must be categorically subordinate to the condition of legitimacy. This leads to a consistent process of critical reflection and conceives normative conditions for life-conducive economic action. The strategy of a company must be proved on a level of legitimacy (*Legitimationsbasis*) and meaning (*Sinnbasis*). In this way the business strategy is meaning orientated and legitimated before all stakeholders and thus the business can be characterised as having *integrity*. Ulrich consistently conceives corporate ethics systemically on a twofold level. The integration of an ethic and economic logic of success is the first task of the firm, which is followed by a *socio-political co-responsibility* to influence the ‘rules of the game’ (i.e. influencing the juristic framework on a political level and installing conventions, standards and moratoriums on a voluntary basis among other competitors) in order to make a business strategy of integrity *possible*.

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<sup>187</sup> Cf. Ulrich 1998: 4.

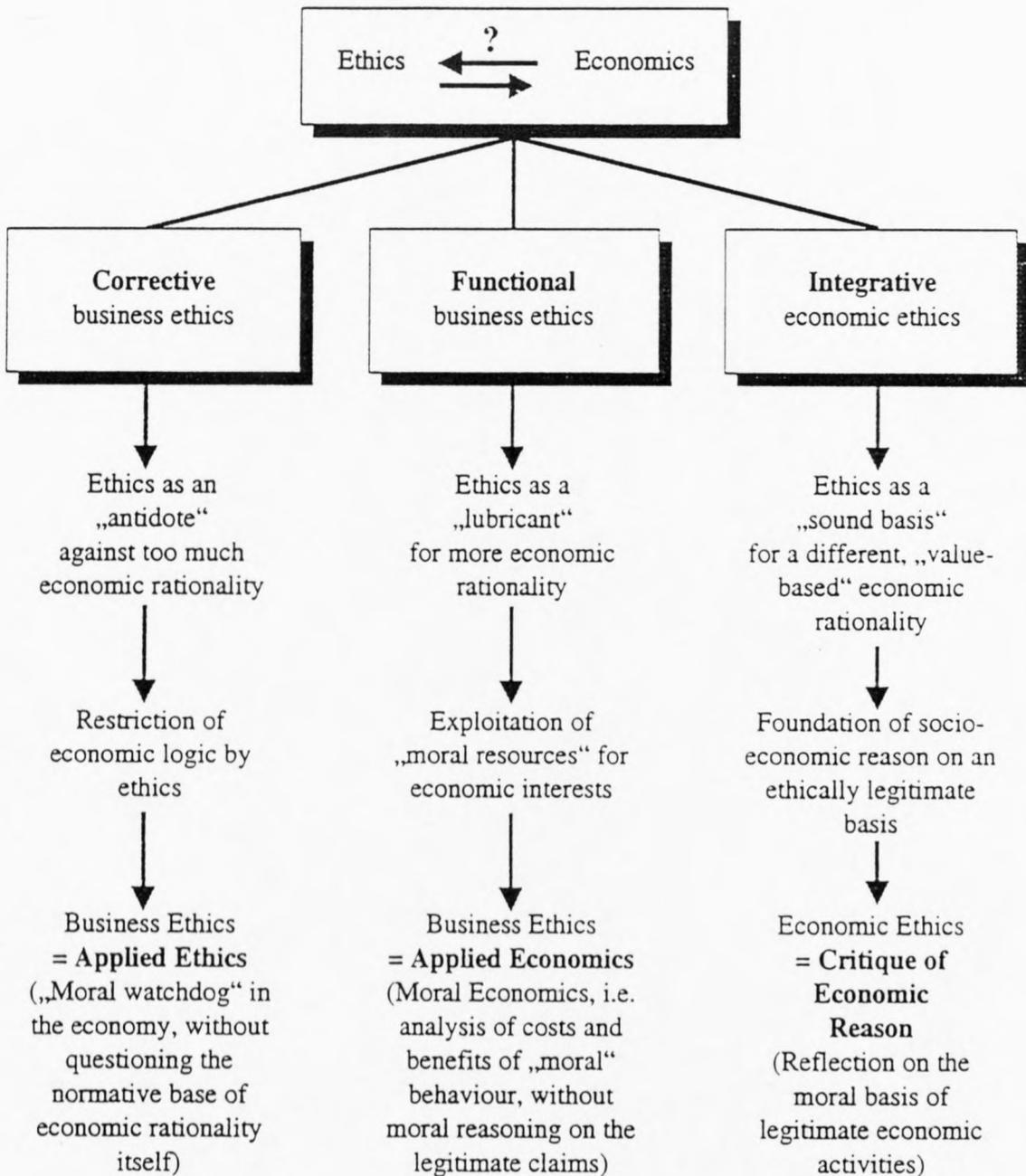


Figure: Three approaches to business ethics<sup>188</sup>

The first level of ethical responsibility is the single company (*Geschäftsethik*). The normative foundation and reason for existence of the business should be legitimate and meaningful.<sup>189</sup>

<sup>188</sup> Ulrich 1998:6.

<sup>189</sup> Ulrich stresses the importance of building a solid normative foundation for the business in which the company wants to make profit. If this purpose of the business is meaningful or life-conducive the danger of getting in dilemmas between ethical duty and economic constraints is minimized. The foundation of all economic activities should be one of life-conduciveness and not of strategic purpose. The basic question is: "Wofür setzen wir uns ein?" (cf. Ulrich 2001: 432). The purpose of the company should be to create real products or services of value for 'good life' and not to harm people or the community. This meaning-orientated

The challenge is to stay profitable under the precondition of safeguarding the company's integrity. The second ethical responsibility of a single company is questioning the socio-political framework where business takes place and initiating or influencing its positive ethical enhancement (*republikanische Unternehmensethik*). The motive is an enlightened self-interest to safeguard the own moral behaviour and corporate integrity aligned with the self-understanding as *corporate citizen*.<sup>190</sup> Market competition needs restriction in order to make life-conducive economic behaviour possible. As a result of the republican concept the idea arises that the "*general public of free and mature citizens is the ultimate locus for morality*"<sup>191</sup> for the corporation as well as for all stakeholders. Consequently the general public can no longer be regarded as a special interest group. It is much more than a "figurative place or forum where the 'reasoning public' [...] in a open ethical and political deliberation finds out what the general interest really is and how far the claims of special interest groups (including the management [...]) are legitimate"<sup>192</sup>. However, the real test for this model of an integrative corporate ethics occurs if a strategy is profitable, but not at the same time moral. This could lead to renunciation of profit until a solid and ethically justified foundation for doing business is found.

Given the fact that there is no ethical ground restricting the maximizing of private advantage, success or profit means that the point of departure of the *ethical discourse* (i.e. legitimating claims) of the entrepreneurs and shareowners on the one hand and all other stakeholders on the other remains open.

Corporations are today more and more influencing the public sphere.<sup>193</sup> This leads us to a short excursus before focussing again on the open stakeholder approach that should clarify the relationship between private enterprise and public interest, which has ever since been a key question in business ethics. Although the single enterprise is legally private property, nowadays the company can no longer be regarded as a 'private' institution. Its actions have a massive impact on all levels of society. Decisions of business leaders – though unintended – cause e.g. unemployment (due to increasing productivity) and pollution (due to economic

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business strategy should be written down in the form of a *life-conducive corporate mission statement* and thus become a management tool (cf. *ibid*: 462).

<sup>190</sup> To prevent unethical behaviour companies can influence the government to adjust the juristic framework by way of moratoriums or conventions and agreements in their branch (cf. Ulrich 2001: 434f). The duty of the company to take responsibility for the socio-political framework and the single enterprise should be fixed by obligated "Business Principles". Cf. *ibid*: 462.

<sup>191</sup> Ulrich 1998: 14.

<sup>192</sup> *Ibid*: 15.

<sup>193</sup> Although their ownership stays private, their public relevance is increasing . Cf. Ulrich 2001: 438.

growth). The public relevance of these corporate activities is indeed larger than ever. The growth of the public exposure of companies causes a multiplying number of economic, social and ecological conflicts of interest and values. The ‘private’ company cannot exist on its own, but relies on the moral and legal constitution of society. It is embedded in a socio-political network, into which it is accepted only through the basic consensus of all citizens as far as it complies with the normative frame of action. In this sense a company is a *quasi-public institution* with the obligation to benefit all stakeholders. This duty has three implications. First, business activities have to be greatly aimed at meeting societal needs and not only at serving shareowner purposes; second, the created income of the business must be distributed justly; third, business strategies are relevant for the public and must therefore be held accountable. Corporate social responsibility is thus inevitably connected to the *responsiveness* of the management concerning their activities and in them giving *good reasons*.<sup>194</sup>

In the light of the idea of deliberative corporate policies a meaningful business foundation has to be proposed and the legitimacy of generating and distributing profit must be clarified and criticised without reservations and finally judged by all stakeholders. The corporate interest of gaining profit is quite a good candidate to be scrutinised as a legitimate claim in the stakeholder-dialogue. This dialogue, which must be protected against becoming a strategy for public acceptance,<sup>195</sup> is the *topos* where the discourse of legitimacy and reasonableness takes place. In the discourse on stakeholder-approaches Ulrich observes two main concepts. Some corporate ethics opt for a power-strategic way, which sees only those parties that have the (latent or actual) power to influence – respectively harm – the enterprise as valid stakeholders. In contrast the normative-critical concept takes all those stakeholders that have legitimate claims in consideration. This includes all kind of contracts or rights, but also all moral obligations for the corporation, including solidarity. This stakeholder approach in a broader sense includes the deliberative public of all citizens. Ulrich favours the latter way and includes all who have and could have claims and by doing so transforms the stakeholder-approach to a regulative idea.

“Im öffentlichen Deliberationsprozess unter mündigen Wirtschaftsbürgern hat sich die Geschäftsintegrität einer Unternehmensleitung zu bewähren, und nur in ihm lässt sie sich begründen.”<sup>196</sup>

<sup>194</sup> Cf. this paragraph with Ulrich 1995.

<sup>195</sup> A strategic shortening of business ethics in terms of ‘public relations’ must be avoided. Cf. *ibid*: 447.

<sup>196</sup> *Ibid*: 443.

The normative criteria in the stakeholder dialogue are of ethical-argumentative nature with good reason as the only force.<sup>197</sup> This dialogue with stakeholders must have consequences on the institutional level. Ulrich wants to safeguard stakeholder relations through specific rights. One suggestion leads to a “Stakeholder Advisory Board”, which regularly builds a forum where all stakeholder claims are discussed. This can even be institutionalised in a “Stakeholder Board of Directors” that includes a “stakeholder assembly” and corporate interests can be developed in the direction of a corporate constitution of pluralistic interests.<sup>198</sup> A second suggestion wants a “Stakeholder Bill of Rights” that includes the right of participation and is balanced by a “Management Bill of Rights”.<sup>199</sup> Thus the basic rights of all stakeholders would be secured and their legal possibilities to intervene with the management are installed. The basic rights of employees should include the right of physical and psychical freedom of personhood and communication rights including rights of information, participation and freedom of speech. These rights should safeguard a possible critical loyalty under the conditions of hierarchical dependence and be supported by a system of confidential ways of communication.

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<sup>197</sup> Ulrich (ibid: 449) delivers the stakeholder-dialogue in the light of Apel’s and Habermas’ idea of Discourse Ethics with the “zwangloser Zwang des besseren Arguments” under the precondition of ‘good will’ as only determination. Cf. Habermas J. Vorbereitende Bemerkung zu einer Theorie der kommunikativen Kompetenz. In: Habermas, J./ Luhmann, N. Theorie der Gesellschaft oder Sozialtechnologie. Was leistet die Systemforschung?, Frankfurt: 1971, 137.

<sup>198</sup> Ulrich (ibid: 452f) refers here to Evan and Freeman (for instance in Evan, W.M./ Freeman, R.E. A Stakeholder Theory of Modern Corporations: Kantian Capitalism. In: Beauchamp, T.C./ Bowie, N.E. (eds.). Ethical Theory and Business. 3<sup>rd</sup> ed. Englewood Cliffs N.J. 1988. 97-106) and agrees with their position.

<sup>199</sup> Cf. ibid: 453.

## 6. CONCLUSION

Ulrich develops his approach of an Integrative Economic Ethics towards a conception of a socio-economic rationality stringently build on the foundation of life-conducive economics. The economic actor adds value to every citizen to support their individual concepts of ‘good life’ and the idea of just and solidary living together. Contemporary business ethics cannot safeguard these two dimensions of ethics (*meaning* and *legitimacy*) if it suffers from an uncritical economism. The first fundamental task for a coherent philosophical ethic is therefore unfettered critique of this ideology. Today, economism as *the great-ideology*<sup>200</sup> rejects this ethical reflection with the argument, that it is neither *possible*, because the market competition forces its subjects through pretended economic constraints to act against life-conduciveness, nor *necessary*, because the market itself already has a morality that causes, due to a less restricted free market system, benefit for all. However ethics and economics must be integrated in a consistent way and the normative ground of economic rationality needs – in line with the tradition of political economy – a solid reconstruction. Economism has nothing to do with justice and very much to the contrary supports the status quo of power inequality in society. Instead, following the Kantian idea of ethical reasoning that breaks with the two-world conception of economy and morality, modern discourse ethics by not stopping critical reflection must impact on political, private and corporate ethics. As a result the comprehensive ethical approach of St Gallen considers the primacy of the ethical perspective over corporate profit-seeking and finally implies an open stakeholder approach. This approach is ‘open’ in a two-fold way. First, all interest-groups are regarded as fully equal stakeholders without any superiority afforded to shareowners; second, the outcome of the ethical discourse of all stakeholders remains open. In this sense, all claims including the profit-orientation of the company are tested concerning their legitimacy in the light of the regulative idea of socio-economic rationality, which is depicted as follows:

*“Any action or institution is rational in a socio-economic sense which free and mature citizens, in a reasonable process of deliberation, have (or could have) consensually found as a legitimate way of creating value.”*<sup>201</sup>

<sup>200</sup> Ulrich labels economism as “die Großideologie der Gegenwart – und diese [Gegenwart ist] damit alles andere als das vermeintlich postideologische Zeitalter: Kaum je zuvor hat eine einzige ideologische Argumentationsform weltweit einen vergleichbaren Einfluss ausgeübt.“ Thus critique of economism is from an angle of the integrative business ethics a revising enlightenment. Cf. Ulrich 2002: 35.

<sup>201</sup> Ulrich 1998: 11. Cf. also II.2 in this paper.

The forum for this discourse is the general public of free and responsible citizens of a just and solidary society. This conception of an Integrative Economic Ethics might have an impact on economics in terms of “practical socio-economics”<sup>202</sup>, which is orientated towards the life-conduciveness of overall economic thinking and acting.

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<sup>202</sup> Ulrich 1998:2.

## CHAPTER III

# EVALUATION OF THE SECOND KING REPORT IN THE LIGHT OF PETER ULRICH'S INTEGRATIVE ECONOMIC ETHICS

## 1. INTRODUCTION

In the following critical analysis of the Second King Report from the angle of Ulrich's Integrative Economic Ethics, we have to evaluate the business ethical underlying foundation of the report (chapter 2). Furthermore an alternative model of an Integrative Corporate Ethics is developed in dialogue with the report and on the basis of our former criticism (chapter 3). This elaborated corporate ethical model is the 'tool' to evaluate, finally, corporate ethical instruments<sup>203</sup> that occur in the international debate and are mentioned in the report (chapter 4).

## 2. EVALUATION OF THE CORPORATE ETHICAL FOUNDATION OF THE SECOND KING REPORT

### 2.1. SUSTAINABILITY AND THE TRIPLE BOTTOM LINE – A BUSINESS ETHICAL SHORTCOMING

The Triple Bottom Line shaped by John Elkington is the foundational conception of the Second King Report.<sup>204</sup> This concept is intertwined with the idea of sustainable development. The approach suggests three-dimensionality. Sustainability, which comes from an ecological background, has the intention of securing future value for environment and society. However, here sustainability refers solely to sustainable *economic* success. The "overriding goal of any enterprise is to consistently generate a competitive return on investments from its

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<sup>203</sup> The instruments discussed in chapter 4 are the Global Compact and the Global Reporting Initiative. They are not part of the underlying business ethical foundation of the Second King Report. Moreover they cannot be considered as full business ethical concepts since they are more like tools which can be used within various ethical frameworks. It makes only sense to evaluate them after developing a concrete Integrative Corporate Ethics in the former chapter. This is the reason for the location of the discussion about Global Compact and Global Reporting Guideline in chapter 4.

<sup>204</sup> Cf. with chapter I of my thesis.

shareowners”<sup>205</sup>. This can only be secured in the long-term by taking the necessary financial matters (short-term success) as well as the non-financial matters such as social and environmental ones into account. Consequently the report no longer regards social and environmental issues “as secondary [...] business imperatives”<sup>206</sup>.

Interestingly, the report uses the term “business imperatives”. Thus these matters are not understood as ‘ethical imperatives’ or consequences of the ‘categorical imperative’, but as imperatives related to economic rationality. The Triple Bottom Line is therefore in reality a one dimensional rather than a three dimensional approach.<sup>207</sup> The social and environmental dimension is only relevant as far as it serves the economic bottom line.

Furthermore the concept of the Triple Bottom Line wants to suggest harmonic co-existence of its three bottom lines.<sup>208</sup> Society depends on economy and the economy on the environment.<sup>209</sup> However the Triple Bottom Line is promoting an illusion; the economic, social and ecological bottom lines are always in tension with each other. Ethics is per se controversial.<sup>210</sup> This is the very nature of ethics. Otherwise ethics as critical discernment in dilemma situations would be superfluous. The question is now: How should one deal with those tensions in an ethical manner? – If the Second King Report wants to be regarded as giving a solid business ethical foundation it has to answer this question from an ethical point of view.

The Second King Report might be aware of the problem since it calls it the “key challenge” for good corporate governance. This is, the company has to balance in an appropriate manner “enterprise (performance)”, meaning “reasonable capital growth” from shareowner perspective, and “constraints (conformance)”, containing the company’s responsibility towards the interests of stakeholders other than the shareowners.<sup>211</sup> However the report avoids specifying how this balance can be reached and hands the responsibility to do so over to each individual company.<sup>212</sup> Moreover the same ethical reductionism as observed above shines through the whole argument of ‘performance’ versus ‘conformance’. ‘Constraints’ do not mean ethical duties but economic necessities. Conforming to non-financial factors – meaning

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<sup>205</sup> IoD 2002: 94.

<sup>206</sup> Ibid: 92.

<sup>207</sup> Cf. Thielemann 2001.

<sup>208</sup> Cf. Ulrich/ Kaiser 2001: 28.

<sup>209</sup> Cf. <http://www.sustainability.com/philosophy/tripple-bottom/tbl-intro.asp> accessed 2003/05/23: page 1 of 2.

<sup>210</sup> Cf. Thielemann 2000: 16.

<sup>211</sup> Cf. IoD 2002: 8.

<sup>212</sup> “The correct balance between conformance to governance principles and performance in an entrepreneurial market economy must be found, but will be specific to each company.” Ibid: 20.

interests of stakeholders other than the shareowners or the environmental and social bottom line – is part of a company's *performance*.<sup>213</sup> This leads us back to the understanding of genuine sustainability in terms of sustainable business success. In this sense the unavoidable ethical dissension remains unresolved. The social and environmental matters are subordinated to the 'overriding goal', which is to make a profit.

Consequently the argumentation to serve the social and environmental bottom line, which is presented in the report, is based entirely on strategic-economic grounds.

## 2.2. PROFIT ORIENTATION AND SHAREOWNER VALUE – THE PRIMACY OF ETHICS

In its approach towards corporate ethics, the Second King Report presupposes that corporate profit orientation is a given fact. Precisely this supposition of corporate ethics and the relationship between ethics and profit orientation is discussed in the following. Clarifying this question has huge implications for a company's role in society<sup>214</sup>.

For the Second King Report the purpose of a company is without any doubt to generate profit.<sup>215</sup> This is the 'overriding goal'. However this profit orientation of the company is not questioned, but accepted as a natural aim and a constitutive principle of entrepreneurship.<sup>216</sup>

The report rejects the so called "shareowner dominant theory"<sup>217</sup> in which a company is regarded as the private property of shareowners, which they run in their "sole interest"<sup>218</sup>. The power of shareowners in relationship to the company is limited to "their power [in terms of] the democratic process of voting"<sup>219</sup>. In fact shareowners have through their investment in the company 'bought' the right to influence its business policy. In the centre of the whole debate about corporate governance is the need to clarify this relationship between shareowners and company. How dominant this theme is becomes obvious by the fact that 70% of the whole report is tackling 'financial matters' which try to define this relationship with its

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<sup>213</sup> "The company must be open to institutional activism and there must be greater emphasis on sustainable or non-financial aspects of its *performance* [highlighted by H.H.]." Ibid.

<sup>214</sup> The role of the company in society cf. chapter 3.

<sup>215</sup> Cf. first chapter of my thesis.

<sup>216</sup> Cf. Ulrich 2001: 393.

<sup>217</sup> IoD 2002: 11.

<sup>218</sup> Ibid.

<sup>219</sup> Ibid.

consequences in all areas of corporate life.<sup>220</sup> In the relationship between shareowner and management there is always an imbalance of power due to the flux of information in favour of the management. The management is always better informed than the shareowners and could manipulate the company's economic balance to enhance the image of its performance and thus keep old and attract new investors. The report is arguing on behalf of shareowners to strengthen their position due to the fact that "shareowner protection [...] is quite ineffective in practice"<sup>221</sup>. Therefore the demand for disclosure and transparency is highlighted. The asymmetric distribution of information is never completely avoidable and that is why investors are dependent on the company's good governance practices, because through them they gain trust in the company.<sup>222</sup> The Second King Report puts it this way:

"Because the shareowners have little or no protection, the quality of governance is of absolute importance to them."<sup>223</sup>

The report wants to stabilise and reduce abuse in the shareowner-management relationship. Therefore it must balance the power of both parties. Concerning the dominance of shareowners the report rejects ownership in terms of total control over the management by its shareowners. A company is regarded as a second persona in law.<sup>224</sup> – This argument, however, argues from a mere legal perspective on the basis of contractual, but not *moral* rights and is therefore insufficient for a solid business ethical foundation.

The rejection of the "shareowner dominant theory"<sup>225</sup> is in this sense merely concentrating on the power abuses by shareowners. However the report is not rejecting a 'shareowner value' concept. In the 'shareowner value' approach the "competitive return of investments"<sup>226</sup> for shareowners becomes the criterion for business success. Thus the shareowners clearly become the most dominant group among all the other stakeholders. Although the report argues for an

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<sup>220</sup> This contains the specification of the management's responsibilities as well as questions about their controlling and organisation. Disclosure and transparency of business practices and policies become very important. Ulrich refers to this subject as the principal-agent-problem (cf. Ulrich/ Kaiser 2001:27).

<sup>221</sup> IoD 2002: 11

<sup>222</sup> Cf. Ulrich/ Kaiser 2001: 27: „[...] das Verhältnis von Eignern und Leitungsorganen [ist] stets durch asymmetrische Information geprägt. Da diese Situation nur zu mildern, nie aber zu beseitigen ist, muss die Kontrolle von Geschäftsleitungen zwangsläufig immer auch stark auf die Vertrauenswürdigkeit von Unternehmen bauen. Die Reputation von Firmen und Personen, die in ihrem Namen handeln, ist ein Indikator für solche Vertrauens- und Glaubwürdigkeit. Ein wichtiges Instrument ihrer Förderung ist eine Unternehmenskommunikation, die unternehmerisches Handeln transparenter und grundlegende Entscheide nachvollziehbar macht.“

<sup>223</sup> IoD 2002: 11.

<sup>224</sup> Ibid.

<sup>225</sup> Ibid.

<sup>226</sup> Ibid: 94.

“inclusive stakeholder approach”<sup>227</sup> in contrast to an exclusive one, its understanding is in fact in line with the shareowner value approach. The report wants the company to be “responsive and responsible towards [its] identified stakeholders”<sup>228</sup>. As indicated by the term ‘identified’ the company is obviously asked to differentiate between “relevant”<sup>229</sup> and ‘irrelevant’ stakeholders. This brings up the question: Relevant in which regard? – The answer is very clear: The criterion for relevancy is (long-term) profit. The ‘identified’ group of stakeholders is merely dealt with as long as they serve the company’s ‘overriding goal’, which is to make profit. This stringent profit orientation of a company (its “performance”<sup>230</sup>) pretends to be regulated or limited by so-called “constraints”<sup>231</sup>. However as already shown ‘constraints’ have an impact on the company’s ‘performance’. In order to perform successfully in the long-term ‘constraints’ have to be considered as important non-financial meaning economic factors. Conforming to stakeholder needs as “self-regulation”<sup>232</sup> is a necessary condition for profit in the long run. The economic long-term perspective is a prerequisite for sustainable business success.

“[...The] inclusive approach is the way to create sustained business success and steady, long-term growth in shareowner value.”<sup>233</sup>

Thus the ‘inclusive stakeholder approach’ and the promoted “responsibility”<sup>234</sup> towards the interests of other stakeholders [other than shareowners] become empty phrases as they instrumentalise stakeholders as a means to an end for shareowner value. Stakeholders are not considered as such because they ‘hold’ a ‘stake’ in a company and have a legitimate claim, but because they are viewed as ‘relevant’ constraints or chances for gaining sustainable profit.

Furthermore the Second King Report suggests that the purpose of a company is *by definition* to maximize its profit and shareowner value respectively. This profit orientation is on ethically neutral ground as it is the economic prerequisite for doing business. Therefore it cannot be judged or even questioned from an ethical point of view. If shareowner value is particularly viewed as the naturally given purpose of a company or even seen as a moral obligation and thus regarded as a *doctrine*, will be discussed in the following.

<sup>227</sup> Ibid: 8.

<sup>228</sup> Ibid:20.

<sup>229</sup> Ibid:8. The report also uses the term “key stakeholders” (Ibid: 92).

<sup>230</sup> Ibid.

<sup>231</sup> Ibid.

<sup>232</sup> Ibid: 19.

<sup>233</sup> Ibid: 8.

<sup>234</sup> Ibid: 7.

As already pointed out in the report, maximizing profit – in a appropriate balance between short and long-term surplus – is the ‘overriding goal’ and cannot be ethically criticised. Profit orientation is a prerequisite for business and – of course – “good corporate governance [in the way it is promoted by the Second King Report] makes good business sense”<sup>235</sup>. Thus corporate governance is merely seen from an economic perspective. The “soft issues” (i.e. non-financial matters) are seen as the “hard facts of *business*”<sup>236</sup> and not ethics itself. An ethical argumentation is seen as obsolete, because profit orientation is suggested as constitutive for being a company. Therefore from the perspective of the report making profit is ‘ethically’ important, because it makes ‘business sense’. The underlying concept becomes crystal clear: economics is regarded as an ethically free zone. Profit orientation is not tested for its legitimacy (i.e. moral justifiability). Thus the Second King Report understands maximizing profit as a given fact or in other words as an *empirical thesis*.

However, it is questionable whether the report transforms this thesis into a company’s moral duty and thus into a *normative postulate*. The argumentation of the report is the following: Since stakeholders can only have interest in a successful company<sup>237</sup>, – otherwise they lose all benefits; they will be willing to accept that they are considered in terms of their ‘relevancy’ towards profit. The reason for this is that their interests are seen as being in line with the company’s interests.<sup>238</sup> Harming the company through ‘unproductive’ criticism is therefore not in their actual interest.

Thus far the report regards the relationship between stakeholders and company as mutually beneficial. The conclusion one could draw lies very close by: As all stakeholders including environment and society in general benefit from a successful company it is the social and environmental *responsibility* of companies to maximizing their profit in a stringently self-centred way. The more successful a company is the more society and environment benefit. Maximizing profit becomes a moral duty of entrepreneurship. The conclusion one may draw then is similar to Friedman’s dictum:

“The social responsibility of business is to increase its profit”<sup>239</sup>

<sup>235</sup> King 2002: 13.

<sup>236</sup> Green 2002: 22.

<sup>237</sup> “Without a satisfactory level of profitability in a company, not only will investors who cannot earn an acceptable return on their investments look for alternative opportunities, but it is unlikely that the other stakeholders will have an enduring interest in the company.” IoD 2002: 8.

<sup>238</sup> “[...] an appropriate balance [has to be] maintained between the individual interests of stakeholders and the collective good of the company *in which their interest converge* [highlighted by H. H.]” Ibid: 99.

<sup>239</sup> Friedmann 1970.

Increasing profit and “nothing else”<sup>240</sup> (as Ulrich adds) is seen as equivalent to a company’s social obligation. Rossouw argues that this dictum is *not* promoted in the Second King Report and is clearly excluded by its rejection of an ‘exclusive stakeholder approach’.<sup>241</sup> In contrast to Rossouw we do not clearly see that the report definitely rejects Friedman’s opinion. As we already pointed out the inclusive stakeholder approach suffers from reductionism, because it does not regard shareowners and stakeholders as fully equal. And this is by the very nature of its approach also not possible, because this approach is not willing to question the legitimacy of shareowner value from an ethical point of view. As long as profit orientation itself is not obliged to be legitimised, it contradicts the philosophical insight that ethics has primacy over economics. Consequently an imbalance between shareowners and stakeholders is unavoidable in this half-bred business ethics. Thus “the interests of other stakeholders [other than shareowners] are only considered insofar as they have strategic or instrumental significance for shareholders”<sup>242</sup>. These words by Rossouw exactly match the handicap that is inherent to the Second King Report. Ironically he formulates this sentence to illustrate that exactly this is *not* promoted in the Second King Report. Yet in our opinion *it is*.

However we are quite uncertain if the report is favouring this view in terms of a normative postulate. That the report considers it as an empirical thesis is obvious, but it is not formulated explicitly that the report sees profit maximisation as equivalent to the company’s responsibility to society and the environment. Maximizing profit is not literary formulated as a moral obligation. Therefore we will give the report the benefit of the doubt and consider it as a merely empirical thesis.<sup>243</sup>

Profit orientation in a company is seen as unavoidable and a given fact. However this is not a ‘fact’ but merely a ‘thesis’ that answers the normative question whether profit orientation is legitimate or not, based on empirical grounds. Ulrich points out its argumentation: a company has to conform to the ‘factual’ market conditions in order to survive. Profit orientation is regarded as the constitutive element of being a company. The given market economic system is not dispositional and a company must follow the economic rules of the game. Therefore the economic necessities or constraints<sup>244</sup> limit the possibilities of corporate ethics. Corporate

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<sup>240</sup> Ulrich 2001: 400.

<sup>241</sup> Cf. Rossouw 2002: 407f.

<sup>242</sup> Ibid: 408

<sup>243</sup> However the equivocally and vague mix of statements by the Second King Report discloses the unawareness of its own normative presuppositions.

<sup>244</sup> Ulrich uses “constraints” in order to describe the economic necessities a company has to follow in order to stay in the market. “Constraints” in this sense refers to his central “*Sachzwangargument*” (cf. Ulrich 2001: 131-164 or in my thesis II.3). The Second King Report also uses the word “constraints” meaning quite to the contrary

ethics in this sense are only possible outside this economic rationality, which thus is viewed as an 'ethical free' sphere. This kind of ethics accepts profit orientation as part of the historically grown competitive market structure and without criticising it fundamentally is trying to limit its application according to each situation.<sup>245</sup>

However in an ethically conflicting situation the decision to give priority to the profit orientation of a company over stakeholder claims, is of *normative* and not of empirical character. In fact every action or choice has normative implications. Since humans have the freedom of choice they can freely choose the purpose they want to reach. However this free choice of purpose has priority over the necessities and constraints that derive from that choice. Ulrich describes this as the

"logische Primat der (parteilichen) Zweckwahl vor den Sachzwängen"<sup>246</sup>.

Hence it is not a given fact that the profit orientation of a company has a higher priority than all the other claims of stakeholders, but a choice. Consequently, the more important entrepreneurs regard their choice towards profit maximisation the more pressing they experience the 'constraints' that derive from that decision.<sup>247</sup>

Yet, this normative choice must be evaluated ethically and is not legitimised per se. Profit orientation of a company is one claim *beside* others. That means it has to be legitimised or morally justified. This can only happen in moral discourse with all citizens involved and influenced by this decision. Thus in a critical moral discourse *good reasons* are the only driving and decisive force and no other form of power. There are certain legitimate human and civil rights that deserve our absolute respect. Profit orientation however does not belong to these rights, but has to be tested for its legitimacy.

Acknowledging this primacy of ethics over economic rationality means taking the categorical character of the categorical imperative seriously. Acknowledging the categorical imperative as *categorically* valid discloses and safeguards the moral point of view. 'Categorical' means

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non-financial matters (i.e. the environmental and social bottom line) or in other words everything which prevents companies to follow stringently their profit orientation. Thus both approaches use "constraints" with different meanings. Ulrich refers to everything that hinders businesses to act ethically whereas the report refers to everything that hinders business to orientate their action solely on (short-term) profits.

<sup>245</sup> So does Steinmann according to Ulrich's critique (Ulrich 2001: 403). Cf. my thesis II.2.

<sup>246</sup> Ulrich 2001: 403.

<sup>247</sup> Cf. *ibid*: „Nicht der marktwirtschaftliche Wettbewerb als solcher nötigt unternehmerisch tätige Wirtschaftssubjekte zu etwas Bestimmtem, vielmehr stellen sie sich selbst bzw. die Unternehmensleitung erst mit ihren Zweckvorgaben an das Unternehmen unter konkrete Sachzwänge.“

that the imperative is universally valid and obligates us in each case and every time to be the absolute dominant criterion in discerning our actions. This imperative is without conditions and driven of any of our intentions, and hence *formal*.<sup>248</sup> This is the cornerstone of humanity. Otherwise humans become means to an end and lose their subjectivity and thus their human dignity. The moral point of view formulated in the categorical imperative counts all humans to the “Reich der Zwecke”<sup>249</sup>. Kant specifies the categorical imperative in the so-called ‘Zweckformel’:

“Handle so, dass du die Menschheit sowohl in deiner Person, als auch in der Person eines jeden anderen jederzeit zugleich als Zweck, niemals bloß als Mittel brauchst.”<sup>250</sup>

The report seems totally unaware of this fundamental insight of the primacy of ethics.<sup>251</sup> The report is trapped in what Ulrich calls a “two-world (mis-) conception of ethics [and economics]”<sup>252</sup>. However, there is nothing like an ethics-free sphere.<sup>253</sup> As already pointed out, every choice has a normative character. Profit orientation is therefore not an empirically given fact, but a normative choice. Max Weber puts it this way:

“[...] *alles* Handeln, und natürlich, je nach den Umständen, das *Nicht*-Handeln, bedeutet in seinen Konsequenzen eine *Parteinahme* zugunsten bestimmter Werte, und damit – was heute so besonders gern verkannt wird – regelmäßig *gegen andere*.”<sup>254</sup>

<sup>248</sup> Cf. Kant: “Endlich gibt es einen Imperativ, der, ohne irgend eine andere durch ein gewisses Verhalten zur erreichende Absicht als Bedingung zum Grunde zu legen, dieses Verhalten gebietet. Dieser Imperativ ist KATEGORISCH.” Kant (1786) 2000: 61.

<sup>249</sup> Ibid: 86.

<sup>250</sup> Ibid: 79. 1

<sup>251</sup> This becomes evident by the term “ethics” is used in the report. There is a differentiation between an ethical and a ethics-free sphere. This becomes obvious by the following example (and there are various others) that explains the Triple Bottom Line: “The social aspect [i.e. social bottom line] embrace values, ethics and the reciprocal relationship with stakeholders other than just the shareowners” (IoD 2002: 11). But what about the economic and environmental bottom line, do not they embrace values as well? – Even more questionable is the use of the word ‘ethics’. In contrast, ethics inhales ‘values’ and is nothing that can be limited to ‘social aspects’. Given the understanding that ethics is “orientation in discernment” (“sich im Denken orientieren”; Kant I 1786. Was heißt: sich im Denken orientieren? In: Werkausgabe Vol. V. Edited by v W Weichedel. Frankfurt a.M. 1982. Pp. 265-283. Cf. Ulrich 2001: 13.) all spheres in life are included by moral discernments which involves also the economic bottom line.

<sup>252</sup> Ulrich 1998: 10.

<sup>253</sup> Therefore *ethics* is the genuine and ultimate discernment of actions. It comprises of that which is considered as being decisive to differentiating between right and wrong. Any kind of ‘meta-ethics’ as a valid criterion beside or above ethics in a kind of ethics-free sphere is not possible, because this would contradict the constitutive character of ethics as ‘ultimate instance’ of moral decision making. Consequently talking about ethics presupposes the acknowledgment of its primacy. Cf. Thielemann 2002.

<sup>254</sup> Weber (1904) 1968: 5. Highlighting is original.

Consequently a company's orientation towards profit or shareowner value maximisation is not an empirical constraint, but a free choice of normative dimension. This free choice is inevitably *for* or *against* others, and therefore it must give account of its legitimacy. If the choice is a legitimate claim and can thus be regarded as moral, it must be critically and ethically evaluated in a discourse with all parties that are affected by the specific action at stake. Profit orientation cannot proclaim ethical neutralism. The conflicts between profit orientation and stakeholder claims cannot be solved on the ground of a (financial) power inequality. All stakeholders of a company enter into this ethical discourse as fully equal participants. No-one can be instrumentalised, as it would contradict the categorical imperative. *Therefore legitimate profit orientation is always morally limited profit orientation.*<sup>255</sup>

### 2.3. ETHICS AS 'FACTOR' FOR SUCCESS – A FUNCTIONALISED ETHICS

In the following we will analyse the function of ethics within the Second King Report. What has already been indicated above is now reviewed from another angle: the functionalisation of ethics itself takes place, because ethics is regarded merely as a strategic 'factor' for 'sustainable' success. The report matches what Ulrich describes as "instrumentalistische Unternehmensethik"<sup>256</sup>.

We already clarified that the Second King Report uses the language of *threat* and *attraction*.<sup>257</sup> In this regard it sees stakeholders other than shareowners as *constraints* or *chances*. As indicated above this leads to instrumentalisation and has the shortcomings of the 'inclusive stakeholder approach'. Financial efforts for ethical reasons are seen as *investments*. A company must invest in ethics in order to have 'sustainable' business success. In this sense the costs for ethics are seen as long-term investments.

Thus the report addresses the strategic cleverness of companies to persuade them to apply the report's recommendations. In this sense the report is merely addressing "strategic rationality"<sup>258</sup>. The Second King Report is arguing solely on economic grounds. The resonance of the report makes this even more obvious. Most articles are in line with this pure

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<sup>255</sup> Ulrich 2001: 415.

<sup>256</sup> Ibid 418. Cf. in my thesis II.5. In the following I will use the translation 'functional corporate ethics'.

<sup>257</sup> Cf. in my thesis. I.4.

<sup>258</sup> Ulrich 1998: 7.

strategic cleverness. The identification of long-term profit and ethics is very dominant in business circles. Empirical studies in the US asked managers in 1961 if they consider the statement: “sound ethics is good business in the long run”, as right or wrong. The vast majority of 98 percent agreed to that opinion. The studies have been repeated in 1977 and 1987 in different countries with similar results.<sup>259</sup>

Non-financial matters – meaning social and environmental stakeholder interests – are seen as crucial in regard to a company’s *reputation* and its *licence to operate*. The report’s point of view is that a company earns a licence to operate by having a responsible and responsive relationship to its stakeholders whereas ‘reputation’ is described as “a function of stakeholder perception of a company’s integrity and efficiency”<sup>260</sup>. Rossouw understands these aspects as “*symbolic assets*” of a company.<sup>261</sup> Using the term ‘assets’ reveals the underlying pattern of pure economic thinking and arguing, which regards economics as value-free. Rossouw realises this and continues in his following paragraph:

“[...]this] argument is merely concerned about the company’s reputation in order to protect its own assets. Despite its lesser orientation on the interests of stakeholders, it nevertheless serves as a motivation for adopting an inclusive approach to corporate governance.”<sup>262</sup>

Rossouw obviously regards the economic argumentation – although lacking ethical arguments – as better than nothing, because it serves an inclusive stakeholder approach. Besides the fact that the inclusiveness of this stakeholder approach is highly questionable, as we already discussed above, we must ask seriously: Can we use economic arguments for a moral purpose in this case?

There are some critical arguments in the following that must be taken into consideration and are opposing the positive answer of this question. Firstly, Kant stresses the philosophical insight that an action cannot be judged as moral or immoral by observing it from the ‘outside’ perspective. An action can only be considered as moral or immoral by evaluating its inner intention. The categorical imperative puts the focal point of ethical discernment on the inner maxim of an action:

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<sup>259</sup> Cf. Thielemann 2000: 16.

<sup>260</sup> IoD 2002: 98.

<sup>261</sup> Rossouw 2002: 413.

<sup>262</sup> Ibid.

„Handle nur nach derjenigen *Maxime*, durch die du zugleich wollen kannst, dass sie ein allgemeines Gesetz werde [highlighted by H. H.]“<sup>263</sup>

Thus the intention behind the action is the criterion to evaluate if the action itself is either moral or immoral. Consequently understanding corporate ethics in terms of improving one's reputation cannot be considered as a moral approach and thus cannot be labelled 'ethical' at all. The intention behind such an approach is genuinely an economic one. Regarding this as valid 'corporate ethics' contradicts the "primacy of morality in the logic of the market"<sup>264</sup>.

Secondly, breaking Kant's insight down to the level of corporate ethics has the following implication. A *good reputation* is not equivalent to *legitimacy* and should not be understood as such.<sup>265</sup> If a company is merely interested in its reputation it will understand corporate ethics in terms of its outward boundaries in which it can purely serve its economic self-interests and will never regard corporate ethics as the inner foundation of its entire economic thinking and acting.<sup>266</sup> This type of company – due to its corporate ethical shortcoming – will only change its business policies because of criticism and reputation damage from outside and not from ethical thinking and discerning in a more pro-active manner from inside. This argument is even from an economic-strategic point of view understandable and must lead to the rejection of understanding corporate ethics merely in terms of reputation-management. Furthermore 'reputation' is an attempt to create public acceptance of a company merely for improving the company's image. In contrast to this superficial approach legitimacy is based on *good reasons* that are proved as such in a critical ethical discourse of all stakeholders. A company, which is open for such a truly inclusive stakeholder approach, will surely build a deeper and longer lasting foundation of its public acceptance than a company, which uses its stakeholders as a means to an end.

Thirdly, in order not to be misunderstood, there is obviously a connection between a responsible acting company and its reputation. However, good reputation must be regarded as a positive *side-effect* and not as the central motive. A functionalised 'ethics' cannot be regarded as being ethics at all. The categorical difference and hierarchy between an ethical and a strategic argumentation must be secured. If this is the case, strategic side-arguments can

<sup>263</sup> Kant (1786) 2000: 68.

<sup>264</sup> Ulrich 1998: 7.

<sup>265</sup> Cf. Ulrich 2001: 419.

<sup>266</sup> Cf. Ulrich 2001a: "(3. These:) Unternehmensethik ist nicht als äußere Grenze, sondern als innere Grundlange des unternehmerischen Erfolgsstrebens zu konzipieren."

be used in motivating companies. Yet the primacy of ethics must be safeguarded even if ethics does not pay in the long run.<sup>267</sup>

One may ask why this functional understanding of ethics is still so popular in the corporate world. Ulrich Thielemann<sup>268</sup> supposes that a reason lies in the idea to consider ethics as 'factor'. This allows seeing a relationship between the 'factor' ethics and the success of a company. All elements within the economic process of net productivity are 'factors' for economic success. Thus, ethics in this understanding becomes one of them and as such is regarded as being a disposable and objective element of success. Quite on the contrary, ethics is never disposable but controversial. Furthermore, ethics is not a 'factor' but a judgment about what is moral and what immoral. To sum up, it is not ethical at all to use 'ethics' as means to a pure strategic end. If this takes place we even cannot speak of 'ethics' anymore.<sup>269</sup> Ethics – correctly understood – cannot be functionalized, because it is neither knowledge of disposal nor an objective economic factor. Instead, it is a moral judgement that derives from a controversial discourse.

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<sup>267</sup> „Es ist nichts dagegen einzuwenden, wenn [Unternehmensethik] das Motiv der Klugheit, also des wohlverstandenen unternehmerischen Eigeninteresses, konzeptionell ausschöpfen – nur darf [...] sich [...] vorbehaltlose, kritische Unternehmensethik darin nicht erschöpfen.“ Ulrich 2001. 421.

<sup>268</sup> Cf. Thielemann 2000:16f.

<sup>269</sup> Thielemann is warning of a false labelling in terms of a pretended ethics. Cf. *ibid*: 16.

### 3. INTEGRATIVE CORPORATE ETHICS BEYOND ECONOMISM – TOWARDS CORPORATE CITIZENSHIP

#### 3.1. LOCI OF INTEGRATIVE ECONOMIC ETHICS – A POLITICAL, CORPORAL AND INDIVIDUAL DIMENSION

Corporate ethics is only one dimension of the three dimensional approach of Integrative Economic Ethics as it is shaped by Ulrich. Integrative Economic Ethics takes place on a political, corporal and individual level. Much economic ethical discernment and criticism is merely focussing either on the business or on the individual or on politics as the one and only place for economic responsibility. However, in approaching the topic in a more holistic manner all these three levels<sup>270</sup> must be addressed and incorporated into our view of the human being and society. In what kind of society do we want to live? Which rights and duties does this view of society imply for every citizen? Clarifying these questions is a prerequisite for defining the role of a company within society.

We already pointed out that the free market economy cannot be considered as the guarantor for economic justice. To believe that, would mean putting unfounded trust in the ‘metaphysics of the market’. Unregulated and unlimited market competition can never create a just and well-ordered society and a solidary living together. Quite to the contrary, it leads to an increase of the already existing power inequalities. The reason for this is that the free market is ruled by power as the only decisive force. Trade as the exchange of product or service and payment is not interested in the actual demand people have, but in the money they have to spend. Thus purchasing power becomes the criterion. This societal model excludes contributive justice and solidary living together. Furthermore, power creates counter power and finds its economic equivalent in performance versus payment. The unregulated free market economy is governed by the rule: “the winner takes all”<sup>271</sup>. Not everyone benefits from this ‘logic of the market’ due to the financial inequality existing in society. Thus this

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<sup>270</sup> Ethics can be mainly divided in terms of an institutional and an individual ethics. Ulrich refers to this common differentiation. However the individual ethics and institutional ethics cannot be regarded as alternatives but stand in dialectical and reciprocal relationship to each other. Extreme positions that focus merely on one of both are insufficient. It is important to focus on both, the moral duties and virtues of the single economic actor (*Tugend- und Handlungsethik*) and the legal framework in which corporate life takes place (*Ordnungsethik*). Cf. Ulrich 2001:

<sup>271</sup> Ulrich 2002: 108.

societal model is neither violence free nor beneficial for all, as some worshippers of the ‘metaphysics of the market’ want to believe.<sup>272</sup>

So how does an alternative vision for society look like? – Ulrich argues against this crude *neo-liberalism* that understands freedom merely in economic terms and favours *ordo-liberalism*, which focuses on the freedom of citizens.<sup>273</sup> This latter vision of a society tries to safeguard the liberal idea of equality of all citizens that live in a well-ordered society in solidarity. Therefore society cannot be ordered by power and counter power, but has to be structured by human, civil and economic rights. Ulrich thus differentiates between these three legal corpora. A state, which has human rights, maintains private autonomy and cultural self-realisation for its citizens. Through civil rights established citizens can participate politically in the *res publica*. This society can then be considered as a democracy. However, only economic rights can finally safeguard equality in terms of people’s socio-economic basis, which affects their livelihood and living standard. These are constitutive aspects of what is called a social state. Only in this latter political concept *real* freedom that includes economic independents is possible. It can be characterised as a well-ordered society, because all citizens are on a personal, political and economic level considered as free and equal and are thus equipped to partake in the *res publica* in solidarity with each other. This vision of society contradicts the neo-liberal concept promoting a kind of anarchy, which is determined by the arbitrary struggle between economic power and counter power. Ulrich’s republican concept of a well-considered liberal society is constituted by the following six criteria<sup>274</sup>:

The foundations are the human, civil and economic rights that I just mentioned. Furthermore the protection of a person’s dignity, including freedom of speech, of religion and of action, is necessary to allow everyone to live out his personal idea of a good life. Thirdly, this idea of a good life is however limited by the freedom of others. Thus equal rights of citizens have priority over individual concepts of a good life. Fourthly, all citizens must understand each other as free and equal as well as moral persons and thus owe each other respect. This consequently calls them to take responsibility in the *res publica* and be interested in a just and solidary living together of all citizens. Fifthly, the political order of this deliberated society is based upon consensual legitimacy<sup>275</sup>. A democratic constitution founds the liberal

<sup>272</sup> Cf. this paragraph with Thielemann 1999.

<sup>273</sup> Cf. Ulrich 2002: 167ff.

<sup>274</sup> Cf. Ulrich 2002: 75f.

<sup>275</sup> This becomes possible through the public use of reason (“öffentlicher Vernunftsgebrauch“). (John Rawls follows here the Kantian tradition). This public reason-based clarification of the democratic intention of society is referred to as *deliberative politics*. Cf. *ibid*: 76.

society. Sixthly, in a well-ordered society the state remains neutral as far as the religions, worldviews and ideologies of its citizens are concerned. This freedom, however, is only maintained as long as the liberal pluralistic society itself is not endangered. Seventhly, well conceived liberalism has to secure freedom for as many of its citizens as possible, which requires a strong state with authority over all kinds of particular interests groups. – This idea of a *res publica* as liberal society that we have outlined here, with these seven elements, conceives the freedom of its citizens alternatively to the freedom of the market. Both views of liberalism stand in direct contradiction. The latter concept reduces liberalism merely to the economic sphere, which serves only particular interest groups and liberalism in terms of a just and well-ordered society becomes impossible. The former type of liberalism however secures the outlined vision of society. For every citizen, taking the necessary responsibility and self-restriction in such a society is actually in his *enlightened self interest* as he is in the same way privileged to be member of this liberal society, which is a precondition for realising his personal concept of a good life. Who wants to live in anarchy?

This concretisation of a societal vision is necessary in order to clarify the company's role and responsibility in society. A company is also part of the *res publica* and its role within this society should be shaped by its self-understanding as a *corporate citizen*. Similar to every other citizen a company therefore has to take its responsibilities as well as it is benefiting from this well understood liberalism.

The Second King Report is missing explicitly firm rules for a proper discourse about a societal vision. The report is aware of the growing 'social power' of company's, but puts a strong emphasis on the relationship between the shareowners and the company. The stakeholders are functionalized in favour of shareowner value and the company's role in society is merely discussed as far as it affects the 'symbolic assets' of the company. In sum, the report is shaped by a private and asocial vision of society that stabilises the monetary power inequalities. Further, the Second King Report is either denying its societal responsibility, because shareowner value and not legitimacy is promoted, or it is even shaped by a latent viewpoint that the market is responsible for a just and well-ordered society. This narrow-minded understanding of Corporate Governance has to be broadened towards Corporate Citizenship.

### 3.2. FROM CORPORATE GOVERNANCE TO CORPORATE CITIZENSHIP – THE COMPANY’S INTEGRITY AND SOCIO-POLITICAL CO-RESPONSIBILITY

According to Ulrich’s integrative corporate ethics, the company has a twofold responsibility. First of all the company has to carry out its business based on the foundation that it is conducive to society and the company must ensure that in all its activities it conforms to the moral duties that are an obligation to all citizens of a *res publica*. However, the company is also responsible for the legal and self-restrictive framework in which it conducts business in order to make moral behaviour *and* profit orientation possible at all. I now turn to this discussion of corporate responsibility in a just and well-ordered society.

The first level of corporate ethics covers what is commonly understood by the term ‘business ethics’. Here the focus lies mainly on the question of how the company can make profit while keeping its *integrity*. Therefore Ulrich tackles this problem under the heading: ‘business integrity’<sup>276</sup>. This offers a meaningful foundation for the company’s net productivity, which adds value to society (*sinngewandte Wertschöpfungs-idee*). Furthermore, business principles have to be conceived that bind all employees, on all levels and for all actions. These principles determine the way a company does business. These two crucial pillars are further enhanced by a fourfold ‘integrity management system’<sup>277</sup>. All these six pillars of managing a *company’s integrity* are elaborated on in more detail in the chapter 3.4.

The second level of corporate ethics derives from a consistent understanding of a company as a citizen in the *res publica*. Besides moral duties, citizens as reasonable subjects also have a political responsibility to shape the society they belong to. Companies are no exception. Although the framework of the market economy is mainly influenced on a political level and thus by all citizens through a democratic process, the single company is not exempt from a *political co-responsibility*. If a company is serious about its integrity and wants to stay profitable it must influence the overall framework wherein economic competition is embedded in order to make ethical behaviour under market conditions possible. Otherwise stringent egocentric profit maximisation is rewarded by the society whereas companies, which are more concerned about their responsibility within society, struggle to survive. If companies do not take on this co-responsibility, corporate ethical behaviour is more likely to stay an ideal, without having a factual place in society.

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<sup>276</sup> Ibid: 153.

<sup>277</sup> Ibid.

We have already discussed the fact that economic constraints cannot be regarded as empirical facts, but are precedent decisions. However, acting against these experienced forces is simply not reasonable if they would make further economic existence impossible. The precondition for reasonable self-limitation therefore lies in the framework of the economic market system.

Moreover it is in the company's self-interest to establish certain moral standards for the market. Companies that are concerned about corporate ethics would have, thus, an advantage in the competitive market situation. Due to their pro-active policies they would benefit from stricter regulations. However, this argument should not become the sole driving force, because this would be a reduction to a functional corporate ethics and the misuse of ethics for strategic purposes. On the contrary, a well-considered self-interest is driven by the guiding idea of the *res publica* by which companies want to partake in building and maintaining a just and well-ordered society.<sup>278</sup>

The establishment of ethically responsible standards and a framework for fair competition can be supported in various ways. The political democratic process can be influenced by companies so that legal corpora can be put in place. Beyond legislation, the self-regulation of economic actors within the business sector in the form of a moratorium can be a valid instrument.

The Second King Report's shortcoming is that it is totally unaware of the company's co-responsibility in society. Because of the lack of critical reflection on how a just and well-ordered society can be safeguarded, it is not surprising that economic constraints are merely understood as naturally given. This viewpoint takes all societal co-responsibility from the single company. It is very unfortunate that such an important paper<sup>279</sup> like the Second King Report misses out on the possibility to embed its corporate ethical approach within the discourse for a societal vision for South Africa. Especially in a young democracy like post-apartheid South Africa, facing immense socio-political challenges, which are extreme even in

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<sup>278</sup> This approach takes top managers as moral subjects seriously. As persons of integrity they can justify all their decisions before everybody. Without a bad conscience, they can acquire respect from all members of society. Ulrich 2002:

<sup>279</sup> The Second King Report is important, because every company which wants to be listed on the South African stock exchange must conform to the standards of the report. That is why the report is so influential in the South African business sector.

comparison to other developing countries (due to its “history of inequality”<sup>280</sup>), a holistic economic ethical approach is strongly needed. Ulrich’s integrative economic ethics is – at least in my opinion – an interesting alternative.

### 3.3. OPEN STAKEHOLDER DIALOGUE – THE CIVIL PUBLIC AS CORPORATE ETHICAL FORUM<sup>281</sup>

The inclusive stakeholder approach, which is promoted by the Second King Report is characterised by an inequality between shareowners and stakeholders other than shareowners, due to the dominance of the shareowner value under which all other stakeholder interests are systematically subordinated. Not the legitimacy of stakeholder claims is regarded as decisive in ethical dilemma situations, but the stakeholder relevancy concerning long-term profit. In other words stakeholders are used as a means to an end. This approach – shortly outlined here and discussed in more detail above – must be rejected from the moral point of view and an alternative model for a truly open and inclusive stakeholder approach is suggested presently.

A well understood corporate citizenship obliges companies to take responsibility and uphold their civil virtues and do their duties as members of a liberal society in the same way they are privileged to make use of their fundamental rights. Virtues and rights are flip sides of the same coin. Fulfilling one’s societal responsibility is therefore in one’s self-interest as this is the prerequisite for a just and well-ordered society. Consequently, legitimate profit orientation of a company is always morally limited profit orientation. The discernment of legitimacy must take place in a moral discourse that involves all stakeholders that are affected by the specific decision at stake. Only if a company regards all its stakeholders as fully equal and understands its own interest as one *besides* theirs, it might be regarded as “responsible and responsive”<sup>282</sup>.

This however does not necessarily mean that profit orientation is very unlikely to be regarded as a legitimate claim in this moral discourse. Entering into an open stakeholder dialogue is not a call for corporal altruistic behaviour. The discourse of legitimacy (*Legitimationsdiskurs*)

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<sup>280</sup> Terreblanche 2002.

<sup>281</sup> Cf. Ulrich 2001: 438ff.

<sup>282</sup> Quite to the contrary, the inclusive stakeholder approach suggested by the Second King Report does not deserve this characterisation.

from a corporate viewpoint is simultaneously a discourse of self-restriction (*Zumutbarkeitsdiskurs*).<sup>283</sup> If a business policy cannot be legitimised within a moral discourse, the company must draw the conclusion from the insight of the primacy of ethics and limit its striving for profit. Creative management is needed to find innovative ways for the company to make its money on the basis of a legitimated economic foundation. The challenge to act entirely on solid and morally justified grounds, requires even better economic performance and innovative entrepreneurship than stringent striving for economic success without ethical reflection.

To clarify the understanding of an open moral discourse with all stakeholders we have to define the group of stakeholders that are equal participants in the decision making process. Ulrich favours a normative-critical concept that opposes a power-strategic one.<sup>284</sup> The latter version that is depicted in the Second King Report identifies its relevant stakeholders<sup>285</sup> according to their latent or obvious power potential, which they can use to influence the company for better or worse. Environmental pressure groups for instance have the potential to damage a company's reputation. Therefore environmental friendly technologies and a proactive dialogue with those groups make strategical sense in order to reduce risk areas for the company. In contrast, the normative-critical concept regards all stakeholders that have *legitimate claims* as 'relevant'. This could mean all kinds of contractual or legal rights as well as specific moral rights for all those that are affected by corporal action or inaction. A more open version of this concept gives virtually every mature citizen the right to critically question every corporal decision. This makes a final enumeration of all stakeholders nearly impossible. Thus stakeholders comprise all those elements of a deliberative public that are willing to post their argumentative claims to a company and enter into a dialogue of equal citizens with the management. In consequence, the economic value creation of a company is a quasi-public event that takes place as a public discourse of legitimacy in civil society.

This viewpoint that can be understood as the concretisation of the regulative idea of socio-economic rationality on the level of the stakeholder dialogue, must be delimited from its persuasive misunderstanding as public relations that merely tries to disprove legitimate critics on the one hand and is reduced to bargaining on the other hand. In the stakeholder discourse all kinds of strategic ways to influence the company are not gaining normative value. Only

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<sup>283</sup> Ulrich 2001: 439f.

<sup>284</sup> Cf. *ibid*: 442.

<sup>285</sup> "The stakeholders relevant to the company's business should be identified." IoD 2002: 8.

*good reasons* are accepted as a decisive force. Hence, the critical civil public can no longer be regarded as a stakeholder or ‘special interest group’ *besides* others, because *the civil public is the systematic topos where corporal legitimacy is proved*. It is a “figurative place or forum where the ‘reasoning public’ (Kant), in an open ethical and political deliberation, finds out what the general interest really is and how far the claims of special interest groups (including the management [...]) are legitimate”<sup>286</sup>. This is why the stakeholder dialogue finally loses every notion of being a private event. In fact the ‘possibility of publicity’ (“Fähigkeit der Publizität”<sup>287</sup>) is the criterion for legitimacy, meaning the acknowledgement of one’s accountability towards every other citizen.<sup>288</sup> A valid proof for the management of whether its decision is legitimate or not is the so-called TV-test: would we have any hesitations to make this decision live on TV?<sup>289</sup>

Ulrich suggests that one concretises this idea of an open stakeholder approach on an institutional level. Although the moral discourse keeps its dialogical character, a legal framework can safeguard the whole process. He thinks of a bill of rights for all stakeholders, which includes employees, business partners and even the management. These legal corpora as part of a corporal constitution include elementary personal rights as well as communication rights. This latter legislative part offers rights to uncensored information and participation for everybody. This proposal of Ulrich matches with the demand of the Second King Report for disclosure and transparency in all corporate activities. However, Ulrich goes one step further in trying to realise the fundamental right of the freedom of speech. Although nobody will deny that this is a matter of course in a democratic society, one has to admit that if one posts critics in a hierarchical working situation there will be disadvantages of some kind. Ulrich wants to promote a critical loyalty. A possibility for realising this could be for instance by means of an ethical hotline for anonymous or an ethics-commission for personal requests and criticism. This will reveal ethical concerns within the company early enough and will prevent later damages to the reputation.

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<sup>286</sup> Ulrich 1998: 15.

<sup>287</sup> Kant I 1795. Zum ewigen Frieden. Ein philosophischer Entwurf. In: Werkausgabe. Edited by v W Weischedel. Vol. XI. Frankfurt a.M. 1982. Pp. 193-251; 244.

<sup>288</sup> Cf. Ulrich/ Steiff 2003: 6f.

<sup>289</sup> Cf. Ibid: 19.

### 3.4. THE INTEGRITY MANAGEMENT SYSTEM – A PROGRAM WITH SIX ELEMENTS

Corporate ethics obliges the individuals within the company to discern the consequences of their actions from an ethical point of view. What is additionally needed, in order not to expect too much from employees, is an institutional ethics that gives the organisation the necessary ethical backbone. Two general guidelines for ethics on organisational level are important: Firstly, the leadership system should motivate morally critical behaviour and punish ruthlessly immoral behaviour concerning career chances and payment increases. Secondly, for all its employees, besides the necessary performance requirements and goals, the moral boundaries and guidelines (e.g. business principles) that have absolute priority, should be defined.<sup>290</sup>

Furthermore an integrity management system is needed which establishes a corporate culture of moral discernment and responsibility. The hierarchical nature of a company makes this a difficult and complex mission. On the one hand possibilities for argumentative critical discourse must be *opened* and on the other hand opportunities for ruthless and morally unconcerned behaviour must be *closed*.<sup>291</sup> Ulrich suggests the following ethical program:

#### *i. mission statement*

A life-conducive foundation for the corporal process of creating value must be laid (*Wertschöpfungsidee*). The company should define how it wants to serve a well-ordered and just society. This gives the company a solid moral foundation and reduces the chances of facing serious ethical concern for the legitimacy of its existence and its nature of business immensely. This foundation that is formulated in a mission statement tackles the three questions: Firstly, *who are we as a company?* (self-understanding); secondly, *due to what kind of performance do we like ourselves?* (understanding of success) and thirdly, *to whom do we want to be accountable?* (understanding of responsibility).

#### *ii. business principles*

Whereas the mission statement formulates the general guiding idea behind the existence of the company, business principles or a code of conduct defines more specifically the moral boundaries in which a company carries out its day-to-day business. It does not matter whether

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<sup>290</sup> Cf. Ulrich 2001: 456ff

<sup>291</sup> Ibid.

they have a legal or a voluntary basis. However, it is important that they are publicly declared and thus have a binding effect, because the company can be held accountable to it.

### *iii. responsibility*

Furthermore, ethically well founded leadership must define the responsibilities for its integrity management program. Who is responsible for the normative standards, for their promotion among the existing leadership structure and for their supervision? A kind of compliance department or a commission for ethics might be a valid instrument in this regard.

### *iv. ethical audit*

A sensitive method to control and evaluate the corporal behaviour according to self-given normative standards must be developed and implemented on all hierarchical levels. All discrepancies between the normative framework and the actual corporate culture and routine, must be pointed out. Control can take place either through benchmarking by external or internal ethical audit.<sup>292</sup>

### *v. ethical competence*

Human resource management should have the dimension of ethical staff-training. Employees must be encouraged and educated to take individual responsibility according to their position. This is a cornerstone on the way to a culture of integrity, which is based on the open argumentative moral discernment of its employees.

### *vi. discursive infrastructure*

Within the organisation a place for a sanction-free and a result-open argumentative dialogue must be established. These are the forums where the discourse of responsibility and reasonableness has its place and where the crucial ethical questions are solved.

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<sup>292</sup> The Second King Report suggests the following: “[...] corporate reputation officers (CRO) to monitor how third parties view the company and [...] report to the chief executive on their findings.” (IoD 2002: 16) This however is not sufficient. The focus of the report is only on the reputation instead of focussing on an open discourse with stakeholders and an honest critical evaluation of one’s own moral behaviour. This shortcoming is not ethically founded, since it is solely interested its own strategic objectives (here: ‘symbolic assets’) and not in legitimacy itself. Furthermore it is also very likely that a company that uses this instrument of corporate reputation will always be one step behind a much more pro-active competitor that tries to integrate a solid moral foundation with its economic performance. This latter company will surely have a better position in the “reputation competition” (Kaiser 2002: 345) that we experience in the corporate world today.

Ulrich highlights that the concretisation of this ethical program is for each company a specific learning process. However, the suggestion outlined here is the logical consequence of a company seeing itself as a *corporate citizen*.<sup>293</sup>

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<sup>293</sup> For this purpose the Institute for Economic Ethics of the University of St Gallen under Peter Ulrich has started a consulting agency called “civis” (Latin for citizen) that attracts companies which want to tackle ethical challenges and install an ethics program. The project started to bridge the gap between academic business ethics and real corporate life. Civis is responsible for all activities at the Institute for Economic Ethics that deal with corporate practice and it does not address the scientific community in the first place. Members of the civis-team are S. Steiff, M. Kaiser and Y. Lunau. Cf. [www.civis.ch](http://www.civis.ch).

#### 4. EVALUATION OF INTERNATIONAL CORPORATE ETHICAL INSTRUMENTS USED BY THE SECOND KING REPORT – THE GLOBAL COMPACT AND THE GLOBAL REPORTING INITIATIVE

After focussing merely on the Second King Report and criticising it as far as the underlying ethical foundation is concerned (chapter 2), we then, in dialogue with the report and supported by Ulrich's argumentation, elaborated on an alternative concept of an Integrative Corporate Ethics (chapter 3). Now in this chapter we are turning our attention to international concepts that occur in the corporate ethical debate and which are also used by the Second King Report. We want to evaluate their usefulness in the context of our stream of argumentation, or in other words discuss their position in relation to the favoured corporate ethical viewpoint elaborated in this paper so far.

Today we find a large variety of concepts that deal with corporate responsibility for society and environment. Business ethics has become en vogue. There might be several reasons for this. The "social power"<sup>294</sup> and relevancy of companies has increased significantly due to globalisation. Companies have put all the emphasis on public relations that are not interested in an open and constructive dialogue, but are one-sided and only aimed at enhancing the company's image. That this way of dealing with ethically problematic situations is not comprehensive at all, became clear for instance, when Shell wanted to throw their oil rig Brent Spar in the North Sea. The corporate world realises evermore that a company's ethical profile is a serious contributing factor in its success.<sup>295</sup> Ethical programs and concepts are therefore needed to succeed in the "ethical reputation-competition"<sup>296</sup>.

However, the crucial challenge for a company today is to define its role within society. This role must then be integrated in a company's self-understanding and identity. As highlighted above, there is a promising future for the company with an enlightened self-understanding as corporate citizen. A valid way for a company to establish integrity on a solid foundation, which is consistently lived out, is promoted by Ulrich's approach of an Integrative Corporate Ethics. There are several concepts available on the 'market of business ethics' that can be valuably implemented in Integrative Corporate Ethics and be useful for corporate citizens. Some of them are critically reviewed in the context of a company's self understanding as a corporate citizen.

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<sup>294</sup> Roussow 2002: 411.

<sup>295</sup> Kaiser 2002a: 762.

<sup>296</sup> Ibid.

The *Global Compact* for instance can help to define the identity of a corporate citizen and have an impact on the level of its *business principles*. The Global Compact was initiated by Kofi Annan, General Secretary of the United Nations, and was launched by several UN organisations in 2000. The challenge to reduce the rising imbalances between “rapidly expanding global markets”<sup>297</sup> on the one hand and a commonly preferred model of society on the other, has to be minimized. The UN wants to stimulate company’s awareness of the interconnectedness of “rights and responsibilities”<sup>298</sup>, not only on a national but, due to the fastening process of globalisation, also on a universal level. The corporate world is called to take on its responsibility, as it is the most relevant supporter and beneficiary of globalisation. The Global Compact is driven by the self-understanding of being a political initiative that fills a gap on the international level that occurred due to an increasing number of trans-national companies acting on a global market and causing universal problems which cannot be tackled by national governments anymore. As globalisation is a universal phenomenon the Global Compact addresses all kinds of companies on an international and national level. However, it is not meant to interfere in private responsibilities and cannot overtake the duties of national governments. In this regard the business sector is asked to conform to nine universal principles on a voluntary basis.<sup>299</sup>

Companies are called to protect and support human rights as well as to avoid involvement in any kind of human rights abuse. Concerning labour standards, companies should acknowledge the “right for collective bargaining” and the “freedom of association”. All kinds of forced and child labour as well as discrimination due to occupation should be eliminated. Furthermore, companies should promote greater ecological responsibility, develop sustainable approaches to environmental challenges and enhance and distribute “environmentally friendly technologies”.<sup>300</sup>

The initiative from the General Secretary is a laudable project that has great potential to have a sustainable impact on the corporate world. It is most fortunate that Kofi Annan personally initiated the Global Compact to concretise the spirit of the UN on a socio-economic level. The common acceptance of the UN and the great worldwide respect for the Secretary General as

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<sup>297</sup> Kell 2000.

<sup>298</sup> Ibid.

<sup>299</sup> Cf. *ibid.*

<sup>300</sup> Cf. UN Global Compact The Nine Principles. The complete nine principles are printed in I.3.5.

well as the fact that the three pillars of the Global Compact – human rights, safety and environment – are founded upon a “universal consensus”<sup>301</sup> will secure the future success of this initiative, which is already evident today.<sup>302</sup> No other worldwide institution could have the same impact on uplifting socio-economic circumstances worldwide.

However we must critically evaluate the ethical value of this instrument for corporate social responsibility and this once again puts the question on the table: what is the underlying motivation for implementing the Global Compact?

Its dominating value is its *legitimacy*, being based on the broad acceptance of the UN on the one hand and the universal common values from which it derives on the other. Yet, several critical voices concur in pointing out the danger of companies using the positive Image of the UN to white wash their questionable business policies and the lack of effective monitoring of companies that declare their allegiance to the UN principles while continuing to violate them.<sup>303</sup> These critics must be taken seriously and the specific corporate ethical framework in which the Global Compact is applied has to be defined.

The reason why companies conform to the Global Compact is the crucial question. It is in general not morally questionable if companies that are serious about their social responsibility use the Global Compact to promote their PR. It could even be necessary from an ethical perspective in a case where a company would be forced by the market competition to produce soccer balls for instance (like all the competitors) by child labour in order to be able to offer them on the market for the same price. Clever and innovative management that is at the same time concerned about the life-conducive character of its business, could solve the economic ethical dilemma by manufacturing the soccer balls by adult labour in accordance with the Global Compact and offering the product for a higher price on the market, while using the Global Compact in its marketing strategy to conscientise customers and thus creating a new market with a morally unquestionable product. In this regard a marketing strategy with a UN logo can have real impact on the socio-economic conditions in developing countries. Therefore it is not criticisable that the Second King Report elaborates on an annual corporate

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<sup>301</sup> UN Global Compact. The Nine Principles.

<sup>302</sup> In November 2002 already 400 companies from 30 countries have announced their support of the Global Compact. (Cf. Utting 2002). Among those are several global players such as Nike Inc., Novartis, Unilever, Shell, DaimlerChrysler, BASF and Eskom to name but a few. Several labour and civil societies like The International Confederation of Free Trade Unions, Amnesty International, Human Rights Watch and World Wide Fund for Nature for instance also agree with the UN initiative. Some of them, however, have not joined the supporters without staying constructively critical. (Cf. TRAC 2000).

<sup>303</sup> Cf. TRAC 2000.

report on “Safety, Health and the Environment (SHE)”<sup>304</sup> as part of the “Integrated Sustainability Reporting”<sup>305</sup>. In complying with these principles companies can be proud of what they do and communicate their deeds that derive from their self-understanding as a corporate citizen to all citizens.

However, the Global Compact can be misused like every other code of conduct for reputation enhancement. If the whole UN program is merely used to gain another advantage in the “worldwide reputation competition”<sup>306</sup> its application cannot be considered as morally founded, but has an underlying purely strategic intention. It is hypocritical if companies, while declaring their obedience to the Global Compact in public, lack in its serious implementation. Therefore a solid corporate ethical foundation is necessary in which the Global Compact can be worked into the company’s *business principles*. If a company bases its entire business policy on its ethical foundation, according to the primacy of ethics above the logic of the market, it is likely to conform to the Global Compact anyway. Then the conviction to support the Global Compact is not derived from strategic arguments, but comes from the company’s “enlightened self-understanding”.<sup>307</sup> This viewpoint is shared by the UN as initiator of the Global Compact.

Even though it uses the Global Compact, corporate ethical shortcomings can lead to incongruence within a company’s business practices. This might become obvious in the following negative example: Novartis, one of the world’s biggest pharmaceutical companies, declares in its annual business report of 2000 that they obey the Global Compact and places within the report its activities regarding health, safety and environment. Despite Novartis’ self-understanding as a corporate citizen, it fought together with 38 other producers of pharmaceutical products against the South African government, which tried to reduce the prices for desperately needed AIDS drugs. Then the government allowed so-called generics (similar drugs that are produced much cheaper without copyrights). This eventually caused several pharmaceutical companies to offer their AIDS drugs for much lower prices in 2001. Novartis however was not conspicuous at all through distinctive behaviour.<sup>308</sup> Obviously the management of Novartis was quite unaware of the interconnectedness of its business practices

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<sup>304</sup> IoD 2002: 106-113.

<sup>305</sup> Ibid: 91ff.

<sup>306</sup> Cf. Kaiser 2002: 345.

<sup>307</sup> UN Global Compact. About the Global Compact.

<sup>308</sup> Cf. this paragraph with Ulrich 2002: 130-133.

and its self-understanding as corporate citizen and has not yet developed “a sense of global citizenship in which rights were coupled with responsibilities”<sup>309</sup>.

The Global Compact is a valid instrument that can help companies in as far as they conform consistently to its code of conduct in taking their social and environmental responsibilities seriously. Unfortunately the UN has neither a valid instrument nor the capacity to control, audit or supervise the company’s obedience to the declared commitments. Therefore it is important that the company reports its activities in a transparent way. In order to make companies more comparable in terms of their social and environmental responsibilities, measurement systems are needed which are unfortunately still scarce.

Furthermore, the Second King Report uses the *Sustainability Reporting Guidelines* that are published by the Global Reporting Initiative (GRI).<sup>310</sup> More and more companies feel that they have to give account of much more than the traditional purely financial report. The current trend leads to the integration<sup>311</sup> of financial, social and environmental aspects in the report of a company’s activities. In doing so, GRI is one of the latest initiatives in the area of corporate communication. It wants to be a worldwide measurement instrument and aims to have “the same level of rigour, comparability, credibility, and verifiability expected of financial reporting”<sup>312</sup>. Sustainability reporting provides the “non-financial matters”<sup>313</sup> that are needed to measure good corporate performance and more importantly accesses the sustainability of the performance. However, the same critics of a half-bred corporate responsibility that goes for the whole concept of sustainability<sup>314</sup> we find here again. The concept refers merely to long-term success measurement. The three-dimensionality of the sustainability thinking is an illusion, since profit orientation remains fundamentally unquestioned and thus social and environmental issues are used to indicate to investors the sustainability of their long-term investments. The positive associations the terminology wants to cause<sup>315</sup> are in this regard not necessarily justified.

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<sup>309</sup> UN Global Compact. About the Global Compact.

<sup>310</sup> The Second King Report prints the recommendation of the Global Reporting Initiative in appendix XI (pp. 254-275). Furthermore section four of the report is labelled “Integrated *Sustainability Reporting*” (pp. 91-124).

<sup>311</sup> Therefore it says “*Integrated Sustainability Reporting*” in section four of the Second King Report.

<sup>312</sup> GRI 2002:1.

<sup>313</sup> IoD 2002: 4.

<sup>314</sup> Cf. III.2.

<sup>315</sup> Cf. Steiff 2002: 446.

Well-conceived reporting can function as a benchmark for ethically concerned companies, which can help as critical evaluation of a company's ethical program. Kaiser<sup>316</sup> gives four criteria that are compulsory from an ethical perspective as far as reporting is concerned. Firstly, the intention behind reporting is crucial. The report should not be a means to promote own interests by the use of persuasion, but should really be driven by the search for best possible understanding. The company as social and societal actor is obliged to support life-conduciveness in all its relations and interactions with its stakeholders. In this sense the report has a notion of responsibility and responsiveness concerning the company's actions and is seen as part of a stakeholder dialogue longing for agreement. Therefore the company's must have an attitude of openness for constructive criticism rather than an a priori mutual disinterest.<sup>317</sup> Secondly, the reputation depends on the level of accountability. How honestly and self-critically a company handles the tension between striving to survive on the market and asking for the vital meaning and legitimacy of its economic activities, is decisive for a good reputation. Thirdly, ethical challenges must be addressed in a dialogical process allowing the participation of all different interests and values. The report then should be transparent and provide detailed references to these processes. Fourthly, to give the addressee of the report the chance to evaluate the company's progress in taking on its responsibilities, specific business principles have to be defined and measurable indicators have to be named. – Consequently ethical qualitative reporting depends on the company's self-understanding as a corporate citizen. Reporting that integrates economic, social and ecological issues in a consistent way, is an important way in which a corporate citizen as well as all other members of a "deliberative democracy"<sup>318</sup> can develop a deeper mutual understanding.

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<sup>316</sup> Cf. Kaiser 2002: 345.

<sup>317</sup> „[Unternehmen wollen] in ihrer Soziabilität wahrgenommen werden. Darunter ist ihre Fähigkeit zu verstehen, beizutragen zum Gelingen von sozialen Beziehungen und zum Aufbau erstrebenswerter gesellschaftlicher Lebensverhältnisse über die bloße Güterversorgung von Haushalten hinaus. [...] Soziabilität [...] ist eine Frage der *Grundhaltung* der Akteure. Man muss anderen *zuhören wollen*, um ihnen *zuhören zu können*.“ Highlighting original. Kaiser 2002: 344.

<sup>318</sup> Ulrich 1998: 13.

## 5. FURTHER QUESTIONS

After I have evaluated the Second King Report, sketched an alternative model of corporate ethics in dialogue with Peter Ulrich and examined two major trends in the corporate ethical debate, the objectives of this assignment as outlined in the Introduction are fulfilled. Nonetheless, I shall use this final chapter to sketch two fragmental thoughts, which the study that is presented in my paper has raised, and which may hint in directions of further questions in my ongoing study of the topic. Thus, this chapter is of mere preliminary character.

Firstly, I shall present some considerations on the specific South African context. This issue has to be discussed, because the Second King Report is meant to address the South African circumstances and was explicitly formulated by South Africans in their concrete context. Yet, the instrument of my evaluation, the Integrative Economic Ethics, is of European origin and I have not yet dealt explicitly with the South African context in this chapter (III). Therefore the question arises: *What are the implications for corporate ethics in the South African context?* I will consider this question in the light of my argument above. However, this question addresses a completely new field of research, which cannot be dealt with sufficiently in this paper.

Secondly, I shall pose the question: *What has Christianity to offer within a corporate ethical discourse?* In asking this question, I do not attempt to propose a complete model for Christian economic ethics. The following ideas are merely a starting point for further research, in which I modestly essay to search for general correlations between the promoted corporate ethical approach taken in my paper so far and Christian ethics.

Regarding the South African context we shall turn to economic theory first. I will briefly recap the market theory, which we have used in our argument above. According to Ulrich Thielmann<sup>319</sup> the market system is in theory based upon the simple economic interaction of at least two individuals in the form of exchange mediated through money. Thus the market itself can be characterised as a network of exchange relationships with money as the means of actual exchange. This relationship is presumed to be of reciprocal advantageous character, and the exchange viewed as mutually beneficial for both parties. Would that not be the case,

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<sup>319</sup> Cf. Thielemann 1999a: 8ff.

the exchange would not take place. Consequently, more market is associated with greater advantage.

However, Thielemann suggests that this exchange relationship (in the way it is promoted in economic theory) is founded on the *homo economicus* assumption. According to this assumption, actors do not partake in such a relationship if it is not to their advantage. The principle of exchange is based on service and payment. Although the market is free of violence it is also anti-solidary. All actors who have the purchasing power are merely interested in their private advantage and only those can partake in the mutually beneficial exchange. The same market system determines the job market. Only the most competitive employees, who are more compatible than others, survive the intensifying competition. In sum, this market is ruled by the maxim “the winner takes all”<sup>320</sup>.

Even so one could say that this theory of exchange is merely an ideal theory that does not match the reality, as nobody is acting exactly according to the *homo economicus* assumption. True, interpersonal relationships in real life are almost never determined by purely selfish striving for advantage and is more dimensional than a mere economic orientation. However, in contrast with exchanges made on a personal level, the market system as *competition* entails indirect relations and thus relationships lose their personal character. Customer and entrepreneur have not got a personal relationship with a long history anymore, but the customer uses a better offer of a different company, where he has never met the salesman before. Trade in this form of exchange becomes an impersonal event because of the competitive nature of the market. This is where the last resort of hesitation falls and the impersonal market system is ruled by an asocial and stringent egoistic striving for advantage. Furthermore, it has to be kept in mind that *value creation* is inevitably intertwined with simultaneous *value destruction*. If a company launches and offers either a better product for the same price or a qualitatively similar product for a better price than its competitors, it will consequently cause a loss for its most inferior competitor. Likewise, if a company creates new jobs, the same amount of jobs gets eliminated somewhere else. Therefore less competitive elements in the market system are put under pressure increasingly, according to the growth in competition. Here the question of who benefits from this market system arises. Only those that are competitive or rich can handle the extending market pressure, whereas two parties are the ‘losers’. On the one hand there are those that are less competitive or poor. They have no choice and are simply confronted with their destiny of not surviving. On the other hand there are those who have the possibility of partaking in the competition but are, out of free choice,

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<sup>320</sup> Ulrich 2002: 108.

for some or other reason not willing to. The free and deregulated market competition is not in favour of those that are not competitive, and it does not matter at all whether they have the capability but refuse to compete, or do not even have a choice. Quite on the contrary, only actors with monetary power (or competitiveness) benefit from the 'logic of the market'.

The explosiveness of this understanding of the market system is striking from a South African perspective. Here, the inequalities are enormous. Some figures may prove this statement. The major part of income in South Africa (72 %) is produced by a small elite, which consists of 16% of the population. In contrast, the majority of South Africans (66%) are earning only 10,6% of the total income. Of these, 50% of the entire population is earning even less than 4%. The income of this group, which consists of 22,5 million South Africans out of 45 million, is below the international recognized minimum income level of R353 per person per month. A quarter of the South African population (11.5 million) are living on 50% or even less of this minimum income level. The unemployment rate was 45.8% in 2001.<sup>321</sup> Hence, the monetary inequalities within the South African context are humongous. To follow the 'logic of the market' and extend the freedom and deregulation of the market system will be beneficial for only a diminutive group, whereas the majority of the South African population cannot partake in bargaining, because of a lack of competitiveness.

Furthermore, the national economies have to be the focal point of our attention. The Second King Report argues that whole national economies, and in particular those of developing countries such as South Africa, compete with one another to attract the foreign investments. Therefore Corporate Governance is viewed as a key instrument to gain the trust of those international investors. That is another reason why the shareowner value is such a dominating theme in the report: Corporate Governance focuses on the sustainability of the shareowners' investments.

Hence, we find the outlined theory of the market on an international level as well. The Second King Report is merely calling on the companies to take responsibility for the whole national economy. This – of course – is once more argued on strategic grounds: Every company with bad Corporate Governance harms the reputation of a whole national economy and by doing so every other company within that economy. Thus it is the strategic self-interest of all companies within a national economy to discipline all "rotten apples" and enforce Corporate

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<sup>321</sup> All these figures are from 2001. Cf. Terreblanche 2002:30ff.

Governance regulations in all companies. In South Africa this is done by requiring every company listed on the South African stock exchange to comply with the Second King Report.

The logical consequence is to apply this 'logic of the market' to politics as well. Although the report does not argue for that explicitly, it is an inevitable outcome, due to the dominating understanding throughout the report of the market as the decisive logic in almost all spheres of life.

However, the crucial danger is that South African politics are no longer ruled by the people but by global market forces and specific interest groups. Although a developing country like South Africa is only able to reduce the enormous historical economic inequalities through national economic growth and a common increase of the living standard, the primacy of politics over market forces must be safeguarded. If the primacy of politics gets lost, a deliberate democracy in terms of a just and well-ordered society cannot be aspired to anymore!

After sketching some considerations concerning the South African context, I shall turn to the theological question of corporate ethics from a Christian perspective.

Peter Ulrich's entire approach is based upon discourse ethics. This ethical approach has a major interest to safeguard rules that make a fair and just moral discourse possible in which no force except the 'force of the best rational argument' is decisive. Therefore the 'logic of the market' determining a system of power and counter-power has to be rejected fundamentally. Discourse ethics is in its entirety a *formal* approach that wants to give rules, principles and a 'regulative idea' for the process of solving conflicting moral claims, but is not of any *material* character. This approach can therefore be used in all moral discourses, whether they are on individual, corporal or political level. Likewise, Christian ethics cannot be conceived as dictating any material content, but has to be conceptualised as having a formal character. If we take the societal discourse of a just and well-ordered society for instance, it cannot be the stance of Christian ethics to promote a "Christian vision" of society, which oppresses this vision over others in terms of a "Christian state", as it causes associations of Apartheid South Africa. Indeed, this has to be rejected. Moreover the formal aspect of an ethical discourse has strong relations to Christian ethics. It has always been in the very nature of Christianity to reject suppressing forces and stand in solidarity with those that

are suppressed and marginalized and to *give the voiceless a voice*. The intention to carefully listen to each and every single personal request from an open-minded stance that is not pre-judgemental, with the urge for mutual understanding, is inherent to Christian self-understanding. Thus, Christian ethics is highly concerned with safeguarding a fair and just moral discourse and, hence, shares the intention of modern discourse ethics.

However, let's have a closer look at the elements, to which Ulrich refers to as moral interpersonal obligations that belong to our human existence and are equally valid for everybody.

First, Ulrich states that all humans are in principle equally vulnerable and need protection.<sup>322</sup> Likewise, Christians regard all human beings as fully equal in their dignity. This theological insight derives from the belief that all human beings without exception have been created in the image of God. However, this has two dimensions.<sup>323</sup> On the one hand, being created implies an ontological difference between creator and creation. The human being is not creator of his or her own but is created by God. Thus, he or she is dependent on the one and only source of life and cannot ground his or her existence in his or herself. Further this implies that all humans are vulnerable and need protection, since they are dependent on the sustaining care of their Creator. On the other hand, the Creator God is not understood in terms of a *Deus absolutus*, before whose omnipotence only the powerlessness of humans counts, but as God that is described as 'father' becoming transparent in Jesus Christ. He calls humans into a personal dialogue-existence, into a covenant and through that enables for a life in freedom and creative and critical responsibility.

Hence, all humans and not only those that believe in this way are in the same way part of this twofold relationship with their creator. God does not differentiate between believers and unbelievers, he "causes the sun to rise on good and bad alike; and sends the rain on the innocent and the wicked."<sup>324</sup> Consequently all boundaries between humans must fall and equal reciprocal respect to each other must be derived. Any functionalised ethics that uses fellow human beings as means to an end must be fully rejected from a Christian perspective. Quite on the contrary, Christian ethics is driven by the urge for mutual understanding and calls people into service for one another.

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<sup>322</sup> Cf. Ulrich 2001: 44f.

<sup>323</sup> Cf. Rich 1985: 173ff.

<sup>324</sup> Matthew 5:45. Cited from The Revised English Bible (1989).

The second element Ulrich refers to is the idea of all humans are capable of putting themselves in somebody else's shoes.<sup>325</sup> This idea has a strong link to the Christian faith, because Christians believe they will meet Christ himself in every fellow human being. This calls Christians into *diakonia*.

“When the Son of Man comes in his glory and all the angles with him, he will sit on this glorious throne, with all the nations before him. He will separate people into two groups, as a Shepard separates the sheep from the goats; he will place the sheep on his right hand and the goats on his left. The king will say to those on his right hand: ‘You have my Father’s blessing; come take possession of the kingdom that has been ready for you since the world was made. For when I was hungry, you gave me food; when thirsty you gave me drink; when I was a stranger, you took me into your home; when I was ill, you came to my help; when in prison you visited me.’ Then the righteous will replay, ‘Lord, when was it that we saw you hungry and fed you, or thirsty and gave you drink, a stranger and took you home, or naked and clothed you? When did we see you ill or in prison and come and to visit you?’ And the King will answer, ‘Truly I tell you: *anything you did for one of my brothers [and sisters] here, however significant, you did for me.*”<sup>326</sup>

This piece of scripture implies the capabilities for humans to put one self into somebody else's shoes. It goes even further, as it calls the reader to meet the need of the needy. The enumeration of needs that is listed here is surely not meant to be complete. This is rather an open listing that calls one into service for all suffering fellow human beings. This service, however, does not take place from a superior perspective, but all those who help and those who get helped meet each other on the same level. We are called to identify with our fellow human beings' suffering. This is an act of discipleship, just as God became human in Jesus Christ and suffered with us. In this sense *com-compassion* is a central Christian theme.

The two arguments above consequently lead to the insight that moral claims and rights are of intersubjective reciprocal character. Every need, which derives from our human vulnerability or in other words simply from our being human, is necessarily reciprocally comprehensible, because we are able and even called to practice compassion. Since Christians are called to meet every human with absolute respect and even love<sup>327</sup>, the moral claim of the other leads inescapably to one's own moral duty. These insights are valid for all human beings and thus this principle of reciprocity can be universalised. This is the logical consequence of what we have said so far. No theological argument can be found to reject this conclusion.

<sup>325</sup> Cf. Ulrich 2001: 44f. Also described in this paper in chapter II.2.

<sup>326</sup> Matthew 25:31-40. Cited from The Revised English Bible (1989).

<sup>327</sup> Jesus calls us to love even your enemies. Cf. Matthew 5:44.

However, Christians know about the limits and relativity of rational based moral 'knowledge' that is distilled through the process above. The reason for that is the sinfulness of human beings. Since is inherent in our human nature, we must acknowledge the relativity of all human accomplishments. Thus, moral judgment must always stay revisable and never lose its preliminary character.

As we can see, Christian ethics shares very important common grounds with discourse ethics. However these fragmental thoughts can only be considered as preliminary prospect into a field of study that has to be dealt with much more extensively and thoroughly. Whether the ideas delivered here can be extended into a solid foundation for a Christian corporate ethical model must be proved in further studies.

## CHAPTER IV

### CONCLUSION

The point of departure of the Second King Report lies in the insight that a company is dependent on the society in which it is embedded. The increasing “social power”<sup>328</sup> of companies is influencing the society, and in turn the condition of the society has a great impact on companies. If a company’s business policy has a harmful effect on the society or environment, stakeholders and the public may apply enormous pressure. This can lead to crucial damage to the reputation of the company, and a company’s reputation is one of its most significant assets. Therefore the ‘soft issues’ or ‘non-financial matters’ which entail social and environmental considerations of the business policy become primary “business imperatives”<sup>329</sup>. The social and the environmental as well as the economic bottom line have to be met in order to safeguard the company’s ‘sustainable’ success. However, Elkington’s idea of the Triple Bottom Line is not a valid ethical concept as it is in fact one dimensional, aiming merely on the sustainability of business success. The Triple Bottom Line seems to be harmonious, but in fact this contradicts the controversial nature of ethics. Likewise the pretended equality of all three bottom lines is an illusion as the concept is determined by the economic bottom line, which is the dominating one.

The inequality of power in the relational triangle of Corporate Governance between the shareowners, the management and the stakeholders is not addressed from an ethical perspective. Although the report promotes an ‘inclusive stakeholder approach’<sup>330</sup>, the interests of stakeholders are only considered in terms of their relevancy towards profit for the company. Insofar their interests are not regarded as legitimate claims within a moral discourse in which all those citizens partake that are affected or involved, but are subordinated under the shareowner value. This, however, contradicts the moral point of view formulated in the categorical imperative, because the report simply uses stakeholders as means to an end.

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<sup>328</sup> Roussouw 2002: 411.

<sup>329</sup> IoD 2002: 92.

<sup>330</sup> Ibid: 8.

Conflicting claims are not solved by good reasons and within a moral discourse of legitimacy, but are *a priori* decided in favour of the “overriding goal”<sup>331</sup>, which is to make profit. The report views profit orientation as a constitutive element of a company. This empirical thesis is dominant in the report. Yet, that this is normatively postulated cannot be proved. Consequently, profit orientation is not questioned at all. However, profit orientation is not a natural fact, but a normative choice, which is *for* and *against* specific interest groups, and therefore not *per se* legitimised. It is only one claim *beside* others that must prove its legitimacy in a moral discourse among fully equal participants. That is why legitimate profit orientation is always morally restricted towards profit.

Further, ethics itself cannot be demoted to a mere economic ‘factor’ for long-term success. Because of the controversial and un-objective nature of ethics it cannot be functionalised as a means to an end without losing its ‘ethical identity’. Despite this insight, the Second King Report views ethics as a strategic factor that pays off in the long run. Yet, a moral corporate practice might, as a *side-effect*, strengthen a company’s reputation, but as soon as it is reduced to this strategic purpose it loses its moral character.

We can conclude that the Second King Report cannot be regarded as having a corporate *ethical* foundation, because its understanding of ‘ethics’ is shaped by functionalism. Both stakeholders other than shareowners and that which the report calls ‘ethics’ is used as means to end in order to serve the economic bottom line. Hence, the report’s argumentation is based purely on strategic-economic grounds.

The question arises: Why is the report trapped in undiluted economic logic and this narrow-minded understanding of Corporate Governance, which approaches stakeholders with mere strategic intention? One reason might be the lack of an overall economic ethical framework in which the report’s approach towards Corporate Governance is embedded. A company does not exist in a societal vacuum, but is part of society from which it benefits and on which it is even dependent. From the report’s correct observation that companies’ social influence is increasing and company and society are interconnected<sup>332</sup>, the report draws an inconsistent conclusion that is limited in its focus on the company itself and its purpose to increase the shareowner value, and thus does not define the company’s role in society. By doing so, however, the report supports only one interest-group in society: those that have capital – in

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<sup>331</sup> Ibid: 94.

<sup>332</sup> Cf. in my paper I.3.3.

other words the shareowners. The market system, which is ruled by competition, allows only those that have the purchasing power to partake in the mutual beneficial exchange. Believing in the deregulation of this market system as guarantor of a solidary living together is a totally unfounded belief in the ‘metaphysics of the market’. Thus, the report argues in favour of the shareowner value, and by doing so supports the monetary power inequalities in society. This approach is anti-solidary, asocial and simply reluctant to serve a just and well-ordered society of free and equal citizens. Yet, who wants to live in such society, which is basically ruled by power and counter-power? The answer is: only those who can afford it!

The danger of the misconception that the company’s role in society is that of a mere private institution serving only one interest group is intrinsic to the Corporate Governance approach, although it’s genuine purpose is to construct an optimal balance between all different interest groups involved in the company.<sup>333</sup> To highlight the company’s role within society the concept of Corporate Citizenship which is favoured by Peter Ulrich is more convincing. The civil public of free and mature citizens is the locus where all claims, including corporate ones, have to be morally justified. Therefore corporate value creation becomes a quasi public event. Furthermore viewing a company as a full citizen of a just and well-ordered society has the following implications: first of all the company has a co-responsibility to influence the legal framework that makes life-conducive value creation possible. Further, the company’s integrity has to be safeguarded by a meaningful foundation of the company’s idea of net productivity (mission statement) and a code of conduct (business principles) against which every single decision taken in the entire company should be measured. One positive point is that the report suggests at least the latter and that it promotes incorporating the Global Compact. It is also good that it recommends reporting all corporate ethical struggles and achievements to the stakeholders of the company according to the guidelines of the Global Reporting Initiative. Both corporate ethical instruments might be helpful in complementing a larger corporate ethical approach as suggested by Ulrich, but are not sufficient in isolation. Once more, the driving intention for their implementation is decisive for their moral value.

This leads us back to the rudimentary premise upon which this thesis is based, and which I share with Ulrich: *It can be the enlightened self-interest of a corporate citizen to act accordingly to the primacy of ethics.* This could mean to restrict one’s private striving for profit if it cannot be morally justified as a legitimate claim in a discourse of all citizens. A

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<sup>333</sup> Steiff defines Corporate Governance as the ‘knack to govern’ (“Die Kunst des Regierens”). Cf. Steiff 2002.

second premise is *the primacy of politics over the logic of the market*. We as moral subjects must define our vision of the society we want to live in. In the sketched vision of a just and well-ordered society of free and equal citizens everyone is equipped to live out his or her personal concept of good life and solidary living together is aspired. A company therefore is inevitably fully part of society and has, as citizen, the enlightened self-interest to take its socio-political co-responsibility seriously.

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