Towards the New Company:

Proactive Corporate Ethics in a Globalised Business Environment

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Declaration

I, Robert Henry Thorburn, hereby declare that the work contained in this thesis is my own original work, and has not previously in its entirety or in part, been submitted at any university for a degree.

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Abstract

The corporation is fast becoming, or may already have become, the prevalent structure in human society. As such, its successes and failures impact heavily on society as a whole.

This study will endeavour to examine past shortfalls in corporate thinking and practice, explaining much of this by referring to lag between societal and corporate change in their respective responses to globalisation. It is furthermore argued that this change is still far from complete(d), if indeed it ever will be complete(d) with a fixed end. This global change, has to a large extent, caught corporations off guard, with their old management styles no longer providing results – with civil resistance to corporate activity resulting in some instances.

The central aim of this study is to not only understand this situation, but also to explore potential remedies. In so doing two unique ideal states, namely the old and the new company, will be developed. With the old company representing corporate structure and thinking that no longer functions effectively. The new company, on the other hand, is not a present state but a future one. Thus it is the destination of the societal and corporate changes examined within this thesis. Consequently, the main subject examined will be a move away from the old company.

Finally, it will be shown that dealing with problems within the corporate context no longer requires the heavy hand of yesteryear. Instead, a proactive approach should be adopted, both for financial and ethical reasons.

Abstrak

Dit kan geargumenteer word dat korporasies binnekort die dominante struktuur in menslike organisasie kan wees, indien dit nie reeds die geval is nie. As sulks, het die suksesse en mislukkings van die korporasie 'n merkbare impak op die menslike samelewing.

Gevolglik beoog hierdie studie om voormalige tekortkominge in korporatiewe denke en praktyk te ondersoek en te verduidelik, grotendeels met verwysing na die verskil in tempo waarmee beide die samelewing en korporasies reageer op die nuwe uitdagings wat gepaardgaan met globalisering. Dit word verder geargumenteer, dat hierdie proses van verandering geen voorspelbare einde het in die klassieke sin nie. Juis daarom het die voortdurende verandering oudmodiese bestuurstyle en tegnieke onkant betrap, met nagevolge wat strek tot by burgerlike verset.

Sentraal aan die ondersoek van hierdie situasie is nie net die intensie om dit te verstaan nie, maar ook die soeke na strategieë om dit reg te stel. Om die onderneming te fasiliteer word twee ideaal state, naamlik die ou en die nuwe maatskappy ontwikkel. Die ou maatskappy verteenwoordig uitgediende strategieë en bestuurspraktyke, terwyl die nuwe maatskappy 'n toekomstige staat is en dus nog nie gerealiseer is nie. Die fokus is dus op die beweging van die ou na die nuwe maatskappy.

Laastens sal dit ook aangetoon word dat uiters outoritêre bestuurstyle en strategieë nie meer van pas, of suksesvol is in die hantering van korporatiewe probleme nie. Alternatiewelik word 'n proaktiewe benadering, op beide etiese en finansiële gronde, aanbeveel.

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The terms of the contract between industry and society are changing ... Now we are being asked to serve a wider range of human values and to accept an obligation to members of the public with whom we have no commercial transaction.

Henry Ford II 1969

We argue that corporations could achieve financial benefits for themselves as well as have a positive impact on the social and natural environments of which they are a part.

Conversations with disbelievers 2000

Business ethics is not an attack on business but rather its first line of defence.

R.C. Solomon 1994

Acronyms

ABI	Amalgamated Beverage Industries
AccountAbility	The Institute of Social and Ethical Accountability
BATSA	British American Tobacco South Africa
BEE	Black Economic Empowerment
BESA	Business Ethics South Africa
BSR	Business for Social Responsibility
BT	British Telecom
BTL	Built to Last
CEO	Chief Executive Officer
CRM	Cause Related Marketing
CSI	Corporate Social Investment
CSR	Corporate Social Responsibility
DJSI	Dow Jones Sustainability Index
IASC	International Accounting Standards Committee
FDI	Foreign Direct Investment
GM	General Motors
GRI	Global Reporting Initiative
ILO	International Labour Organisation
IMF	International Monetary Fund
ISO	International Standards Organisation
NASA	National Aeronautics and Space Administration
NEPAD	New Partnership for Africa's Development
NGO	Nongovernmental Organisation
NORM	Neutral Omnipartial Rule Making
NRC	Nuclear Regulatory Commission
RIMS	Rational Interaction for Moral Sensitivity
SER	Sociaal Economische Raad
SPE	Special Project Entities
SRI	Socially Responsible Investment
WBCSD	World Business Council for Sustainable Development
WCED	World Commission on Environment and Development
WTO	World Trade Organisation

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Chapter One

In search of the new company

1.1) Business ethics.

1.1.1) Introduction.

Change, oppressed people celebrate it, religious fundamentalists resist it with bloody vigour and global corporations have to *plan* for it. The global community as a whole, is in a continuous state of flux, which is closely related to the globalised nature of contemporary society. The issue of globalisation is therefore of vital importance to the central project of this thesis, which is business ethics in a globalised environment.

Globalisation can, to a large extent, be characterised as an increased level of economic, political and cultural interdependence between nation states.[1] The net result being the softening of what would traditionally be called, national sovereignty. The global market, under such conditions, becomes the prominent factor in determining fiscal policy, with the same logic extending to companies involved in the globalised economy.[2] This is not to say that there is any manner of agreement on the true extent, or future, of globalisation. On academic grounds, the concept has been the subject of much debate, while many international social movements have rallied around the call to oppose globalisation.[3] Ironically, the interaction between grassroots movements in different countries can also be seen as a manifestation of globalisation. What can be agreed upon, is that the world is experiencing change at an accelerated pace, whether this will be the new status quo or just a passing situation, remains an open question.

It is within this context of change and globalisation that business practices and challenges, both ethical and otherwise, will be examined within this thesis. The proposition which will be put forward here is that of a paradigm shift,[4] which is taking place in business thought. Situated as the central subject in said investigation, will be the movement of corporate thought towards a new context or paradigm. A paradigm,

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[1] Pot 2003, 118
[2] Bryan & Farrell 1996, 1
[3] Dolfsma & Dannreuther 2003, 176
[4] Introduced by Thomas Kuhn, the term refers to a set of scientific beliefs and theories within a given discipline, which is eventually displaced or replaced by a newer set. Kuhn does, however, make allowances for different interpretations and applications. See Kuhn 1977, 293 – 297

which, as we will see, is still at a foundational stage and far from complete(d). The primary motivator for this paradigm shift being the inability of the old paradigm, to adequately address the challenges and opportunities presented by globalisation.

To provide both structure and scope to this investigation, a central question or line of inquiry must first be established. This multipart question is as follows: *What are the core factors contributing to the formation of the new business paradigm and how do these undermine the old paradigm; what are the challenges faced by this new paradigm, both internal and external; how are these challenges dealt with; and lastly, what advantage, if any, does the new paradigm have over the old?*

In order to answer the preceding question, all the tools to be used must first be named and defined, which is the task undertaken in this introduction. First and foremost in this regard, is the concept of business ethics. Business ethics, when measured against other academic disciplines is most definitely still in its infancy. This, however, does not mean that its use or application is in any way limited, in actual fact the direct opposite is implied here. Because business ethics is such a new discipline, those working in this field have the opportunity to broaden its horizons and extend its application without the formal restrictions present in older disciplines.

Viewed on its own, the term ethics already presents one with a problem, since it is related to the term morality. Rossouw explains ethics as follows: *"Ethics concerns itself with what is good or right in human interaction. It involves consideration of 'good', the 'self', and the 'other'. It is important that each of these three concepts should be included in a definition of ethics. Should the concept 'good' be neglected, the unique nature of ethics collapses: ethics is not merely concerned with interaction between a 'self' and an 'other', but with the quality of interaction – goodness – between the self and others."*[5] What then of morality, what if anything, is the distinction between morality and ethics?

In the view of some, morality is concerned with human conduct and values, whilst ethics on the other hand is the study thereof. In common usage this distinction is not

[5] Rossouw 2002, 3

found, instead the two terms are used interchangeably and so too are their antonyms.[6] In keeping with this common practice, no true distinction will be made here and the two terms will be used as synonyms. In addition, the term ethicality, will refer to the measure to which ethics has been internalised, within a company, society or element of either.[7]

The term business, is used in a broad manner to refer to economic interaction between two or more parties and also includes organisations engaging in such activities. Thus, the following definition of business ethics can be deduced: "*The ethical impact of economic activity is studied in business ethics, but so too is the economic impact of ethicality.*"[8] The ethical impact of economic activity has a broad reference here, as we will see throughout this thesis. Economic activity not only has an impact on areas of environmental and greater social concern, but also on the internal workings of companies. Conversely, acting in an ethically correct manner may also hold economic implications for a company. Consider, in this regard, the opportunity to make millions selling a product, such as tobacco, which is extremely addictive and potentially deadly. Does the profit to be had, override the ethical arguments against the sale of tobacco?[9] The true nature and extent of such implications will be the subject of much discussion in this thesis.[10] Business ethics, as defined here, may be a relatively new academic discourse, but commentary on the ethical conduct of those engaged in business is by no means a new occurrence. The Code of Hammurabi (1800 BC), for instance, voices concerns over the ethical conduct of merchants and traders.[11]

A further definition which presents some difficulty, is that of stakeholders. The term stakeholder generally refers to persons or parties with an interest in a company's actions, who are not necessarily customers or shareholders of that company.[12] Two types of stakeholders can be identified, those who are vital to the survival of the company and those who are not directly involved but are in some way affected by the

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[6] Shaw & Barry 2001, 4
[7] This definition will aid in expediting future discussions.
[8] Rossouw 2002, 4. The preceding definition of ethicality does not necessarily apply to the manner in which others use the term.
[9] Cocaine kills approximately 8000 Americans yearly (1993 figures), while smoking related illnesses kill nearly 400 000. White 1993, 73
[10] See Section 1.7.1
[11] Werhane 2002, 325
[12] Although customers and shareholders are also included.

company.[13] Shareholders, employees and customers are typically in the first group, with other affected individuals in the second. The importance of the second group might be somewhat understated by Bradburn, but his approach does aid one in understanding the scope of the concept. Another possible explanation of the term, is that stakeholders are those individuals or groups who are affected by a company's actions and policies or who can in some way affect the company.[14] Furthermore, it should be understood that the status of stakeholder does not necessarily guarantee any form of obligation from the involved company, primarily due to the problem of legitimacy. "*An unqualified normative admonition that management has an obligation to respond to the self-defined needs of anyone affected by a corporate decision, leads to the anomalous result that an armoured car company must consider the interests of thieves as stakeholders in the context of a decision to improve the security of its cash delivery service.*"[15] Thus, stakeholder issues require individual attention, instead of a generalised or systematic approach.

Such considerations are of course part of the business ethics field, a field of inquiry rooted in the very nature of business, namely: economic interaction between two or more parties. In other words, business cannot be done in isolation and because of this interaction, it literally pays[16] to be sensitive to the needs of other parties.[17] Through ethically correct actions and interactions, a company builds up a strong relationship with its stakeholders and this in turn has a positive effect on customer loyalty and the company's public image. One can thus infer, that ethics provide a company with legitimacy.[18] This also reveals a positive relationship between competition and ethics, since one company can outperform another in providing for the needs of a certain group, through the application of ethical principles.[19] These preliminary statements are elaborated upon in the rest of this chapter and also Chapters Two and Three.

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[13] Bradburn 2001, 86
[14] Buchholz & Rosenthal 2002, 315
[15] Donaldson & Dunfee 2002, 40
[16] Just consider the negative impact on a company's reputation and future profitability, if it comes to light that the company has been supplying dangerously substandard products to its customers.
[17] Rossouw 2002, 25
[18] Solomon 1994, 37
[19] The Merck case study, at the end of this chapter, also illustrates this point.

The contention advanced here, is that there not only is a relationship between ethics and business, but that the relationship is a positive one. This is largely due to the fact that business ethics can be seen as a full awareness of, and consideration for, the context within which business is conducted. With regards to such awareness, business ethics can be seen as having three cornerstones, what Solomon calls the three Cs of business ethics.[20] They are: compliance, contributions and consequences. Firstly a company must always operate within the rule and the principles of morality. If the law was to be the only factor in compliance then it would, for instance, be acceptable to use child labour in countries that did not have laws against such practices. Secondly, companies can contribute to their surrounding communities through the quality of their services, through job creation and through the prosperity and utility of their business activities. Thirdly, companies should always be cognisant of both the intended and unintended consequences of their actions, both inside and outside of the company. This should also include awareness of the company's general reputation.

The discussion thus far, has centred on the definition and illumination of certain concepts central to the field of business ethics. In the next subsection a plan will be formulated for answering the central question posed at the beginning of this chapter.

1.1.2) Chapters and methodology.

In order to fully explore the current paradigm shift in corporate thinking and structure, two ideal states, namely the 'old company' and the 'new company', will be developed in Section 1.1.3. The exact difference between the two can unfortunately not yet be established, as the 'new company' represents the ethically attuned construct, which will result from current changes. Instead, the shortcomings of the 'old company', which represent the primary motivator for the current paradigm shift, will be examined so as to deduce certain aspects of the 'new company's' structure.[21]

Chapter One will initiate this inquiry and view related subjects, in order to lay the foundations for the rest of this thesis. The focus of which will be the movement towards the 'new company', including the development of a proactive approach to

[20] Solomon 1994, 37

[21] Thus also the main title of this thesis: *Towards the New Company.*

corporate ethics and ethicality.[22] The reasons for this proactive approach will become evident as the discussion develops. For now, it will suffice to say that preventing problems is a much better approach than just reacting to them, both for ethical and financial reasons. On an associated point, the terms proactive and pre-emptive will be used as synonyms. Proactive will be favoured though, as pre-emptive retains a certain military connection, as in pre-emptive strike. This move complements others yet to be made, all of which show that the corporate love affair with military style strategies is coming to an end. So for instance, we will see stakeholder (including staff) engagement replacing command and control (in military jargon referred to as C&C).

The terms corporation, company and firm, will also be loosely used as synonyms, as this thesis will not investigate small, medium and micro enterprises explicitly. This is primarily due to the limited structure of such enterprises and the pervasive nature of globalisation, which will also affect these enterprises, through changes in the market. Hence, smaller enterprises are subject to the same market forces as large multinationals, just in a limited fashion. This ties in with the placement of corporate ethics within the context of a globalised business environment, instead of just a globalised market, as the term environment encompasses more than just the market.

The study presented here will be spread over three parts, with each consecutive part having twice as many chapters as the previous, moving from a general introduction, to external issues in business ethics and finally to internal issues. The first chapter in each part, will present an introduction to that part, explaining its contribution to answering the central question. At the end of all the full chapters, a relevant case study will be presented. [23] The case studies can also be seen in two groups, with the first three representing positive outcomes and the last three negative outcomes. As already stated, this chapter will act as foundation for the rest of the enquiry, explaining central concepts and establishing certain positions. It will also be the only chapter to present the two ideal states as primary subjects of discussion. The following chapters will instead, focus on the movement from the old to the new. In other words, they will focus on the current state of affairs.

[22] With ethicality representing the measure to which ethics has been institutionalised.
[23] Thus excluding Chapter Seven, which is the conclusion.

Research has been conducted in the standard manner, mainly by means of a literature and research review, with the addition of a number of Internet resources. This was however limited to only the most reputable and best known news, academic and corporate web sites.[24] Much of the information utilised in case studies was gained from Internet sources, due to the ease of obtaining specific facts and figures in this manner. It must however, be stressed that the utmost care was taken to ensure the accuracy of information gained from the Internet.[25]

A final point concerning the Internet, is that news agencies have a tendency to move information on their sites. Hence, references to such websites will generally only list the homepage address, such as www.cnn.com, from where the site's own search function can be utilised to locate the original document.

With these methodological issues now established, the initial step in setting up a foundation for the rest of the thesis can be taken. This initial step being the establishment of the boundaries between the 'old and new companies'. The establishment of these boundaries will make up the central discussion presented in Chapter One. Once this is done, we will be in a position to examine the movement between the two paradigms in further chapters, in order to answer the central question of this thesis.

1.1.3) Boundaries of the old and new.

In order to answer the central question,[26] we must first establish the boundaries of the two paradigms. To expedite this, the old paradigm will be referred to as the 'old company', with the new being the 'new company'. As we shall see in the following discussions, the 'old and new companies' are not clearly separated in time, instead they overlap each other and elements of both constructs may be present in the same company over the same time period. The 'old and new companies' therefore, only

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[24] The Internet's penchant for spreading dubious information can, for instance, be seen in the number of websites proclaiming Henry Kissinger to be the antichrist.

[25] Any facts that the different sources were not in agreement on would have been omitted, but such a situation did not arise.

[26] *What are the core factors contributing to the formation of the new business paradigm and how do these undermine the old paradigm; what are the challenges faced by this new paradigm, both internal and external; how are these challenges dealt with; and lastly, what advantage, if any, does the new paradigm have over the old?*

exist in their pure form as theoretical concepts or ideal states.[27] The focus of this thesis then, will be to examine the movement from the 'old' to the 'new company', including the reasons for this movement.[28]

The primary distinction between the two paradigms, as will be shown, is the position of ethics within each. Within the 'old company' paradigm, increased corporate ethicality was seen as a practice that is contrary to the principles of business. The 'new company', on the other hand, affords to business ethics a central role in business practice and even involves it in profit maximisation.

Formulating these two theoretical constructs, is only a first step towards answering our question. In order to fully answer the question, which serves as foundation for this thesis, we must explore not only the inner workings of companies, but also the social conditions within which they function. To fully examine both these issues, cotemporary concepts in business ethics will be introduced throughout this thesis, and applied in such a manner as to elucidate the present situation. Firstly, though, the position of ethical theories needs to be established.

1.2) Applied ethics.

In dealing with the application of ethics, much of the literature available on business ethics presents the reader with a standard approach. This approach firstly introduces a number of ethical positions, where after their application to the business environment is discussed. Unfortunately, this approach does not remain functional when translated to the context of a thesis in philosophy. The reasons therefore being twofold. Firstly, doing justice to the theories utilised, would require an extended discussion of each and an eventual comparison, leading this project on an unwarranted theoretical or meta-ethical detour. Secondly, skimping on this investigation is also not acceptable, since the resulting discussion would lack the finer precision required by a thesis in philosophy. As a final compromise, it was decided to only focus on one aspect of ethical theories, namely the manner in which they deal with moral decision making and problem

[27] The full implications of this will be explored in Section 1.7.
[28] These reasons are of primary importance for answering the central question of this thesis.

resolution.[29] Stated differently, we will examine their application to the area of decision making and moral problem resolution.

Applied ethics and its synonym 'practical ethics', refer to the application of ethical principles to the moral problems of society, such as abortion, euthanasia, medical research, sexism, racism, civil disobedience, the business practice, etc.[30] A more formal definition of applied ethics reads as follows: "*Applied ethics is applied to concrete cases of morally relevant situations where a person may act in a certain way. The cases may be actual situations involving real (present or past) events, or it may be a matter of considering possible future situations, ... or the situations may be wholly fictitious, taken as 'Gedankenexperiments' to provide paradigms for a class of cases which may include real ones.*"[31]

This thesis, as a text in the field of applied ethics, will focus on business ethics, mostly by means of concrete cases, but also through viewing the possible implications of future states, where functional. The third possibility, namely 'Gedankenexperiments', will also be utilised as far as the formulation of the two ideal states, the 'old' and the 'new company', are concerned.[32]

What is also of central importance, is the ethical theories that are applied to moral problems. In this thesis we will consider three ethical approaches, with the addition of feminism and ethical relativism.[33] The three ethical approaches were chosen for their dominant positions in contemporary ethical debate,[34] they are: consequentialism, Kantian ethics and virtue ethics. These three ethical theories, or approaches, can briefly be introduced as follows:

1. **Consequentialism:** This theory maintains that the ethical character of an action or situation is to be determined by its consequences. A variant of this theory is utilitarianism, which judges actions on the basis of the happiness that they produce.

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[29] See Sections 6.4, 6.5 and 6.6.
[30] Beauchamp 2003, 1
[31] Morscher, Neumaier & Simons 1998, xiii
[32] It should however be noted that, even though neither of these states are fully realised, they are not fictional.
[33] This is the only chapter were relativism will be discussed in any detail.
[34] See Section 6.1.2 for a full argument in support of this assertion.

2. **Kantian ethics:** Amongst other things, this theory holds that universalisability is paramount. That is to say that, if an action is the right one to take under certain circumstances, then it must always be the right one under those circumstances.
3. **Virtue ethics:** Here, the attitudes, dispositions and character traits of the virtuous agent are used as the measure with which to judge an action or situation.

The other two positions, feminism and ethical relativism, differ radically from the three already introduced, both in position and in the manner in which they will feature in this thesis. These two positions will therefore be introduced in more detail.

Feminism has recently had a measurable impact, not only on the global community, but also on corporations, most notably in the field of corporate structure. Unfortunately,[35] feminism does not present one with a single or unified position, instead it is a collection of related positions. As a result, it would not be possible to formulate a single feminist answer to problem solving and decision making, undermining the possibility of inclusion in Chapter Six.

Ethical relativism, on the other hand, threatens the very possibility of a discussion entitled business ethics. The position undermines global ethical discussions, by maintaining that communication across ethical positions and norms is not possible. Section 1.4 is therefore tasked with providing a defence against ethical relativism.

1.3) Feminist positions.

1.3.1) Initial remarks.

Feminism is a philosophical approach, which endeavours to address a general bias that favours the masculine in all aspects of society. This bias places women in a subordinated or secondary position to men. Typical of feminist theories is a greater emphasis on aspects such as caring and bonding, which are normally neglected by other theoretical positions.[36] This heightened attention to aspects normally neglected by other theories, can be explained as follows: "[*G*]*iven prevailing socialisation*

[35] Or fortunately, depending on one's position.
[36] Blackburn 1996, 136

patterns and the traditional position of women in the family, certain values are typically woven more deeply into women's everyday lives than that of men's."[37] It should be noted though, that this very explanation offered by White, could be seen as indicative of the subordination of women, as women are forced by convention to commit to caring (or mothering) roles and to shun roles involving dominance or control.[38] With this difference in focus (or critical stance), feminism provides a unique and potentially valuable insight into business ethics.

Feminist ethics, instead of being preoccupied with the differences between men and women, rather focuses on the social and other structures which cause and perpetuate the subordination of women. In this regard three main objectives can be identified:

- *To articulate moral critiques of action and practices that perpetuate women's subordination.*
- *To prescribe morally justifiable ways of restricting such actions and practices.*
- *To envision morally desirable alternatives that will promote women's emancipation.*[39]

These three goals may be relatively broad, but they do provide a general understanding of the issues of ideology, power and domination, and ways to expose and oppose it. Furthermore, one would do well to keep such goals or principles in mind, when formulating a corporate ethical code.

The critical stance inherent in feminist debate, thus provides the theorist with a greater number of avenues for the exploration of theoretical issues. There is a large diversity of sub-positions within the larger feminist framework,[40] but this diversity can also undermine compatibility between different feminist research projects, possibly weakening the feminist position through lack of unity.[41] Readily accepting and utilising new ideas or techniques, could also impede communication with those who have not done so, as we will see in the discussion of feminist positions on marketing, presented in Chapter Three. On the other hand, the different approach taken by

[37] White 1991, 97
[38] Derry 2002, 83
[39] Derry 2002, 82; Bullet or numbered points presented in italics, as is done here, are direct quotes.
[40] See Marincowitz 1998 for a number of examples.
[41] Stanley 1993, 12

feminism, can potentially be very valuable to ethical inquiries in the field of business. This value is located in the feminist emphasis on quality and not quantity,[42] which provides the researcher with new ways of analysing business activities and the social impact thereof. In addition to this, it would be helpful to see feminism as a manner of theoretical inquiry, instead of seeing it as merely relating to women's issues.

The value of such an approach can be seen by means of formulating a societal view. Traditionally, most theoretical positions would divide a society into smaller groups, with similar needs or characteristics. This would then enable decision making concerning those smaller groups, such as, where to distribute food or build a factory. Viewed from a feminist position, one agent within society, or a smaller group, is not necessarily equal to other agents in his or her society or group. To therefore see these agents as equal and interchangeable, is to do them a disservice.

The answer that feminist theory offers in response, is a caring approach that does not perceive equal agents within society, but rather, people in unequal relationships to one another. A feminist approach could potentially assist in understanding and exposing previously hidden obstacles hindering the progress of programmes, such as a company's corporate social responsibility (CSR) projects. This is markedly the case with stakeholder theory, as feminist insights may assist companies in clarifying stakeholder positions. [43] Thus companies would be able to act from a better informed position. However, the emphasis on caring does have the potential of causing problems similar to those associated with the corporate philanthropy position,[44] which will later be shown to create certain difficulties within the business context. But this criticism does not totally derail the application of feminist principles, as we will see in the following section.

[42] Pugh 1993, 104 – 107
[43] Buchholz & Rosenthal 2002, 314 – 316
[44] Discussed in Chapter Two.

1.3.2) Application.

Feminism, as a collection of varyingly divergent (or related) positions, is not the most obvious of choices to discuss under the heading of business ethics. This is however largely due to the initial absence of a single or unified position, which, under a modernist conception, would totally impede any attempt at meaningful application. As we will see in Part Two, though, feminism has a strong tendency towards the postmodern. Throughout the rest of this thesis, feminist positions will be used to open up new avenues of investigation and application, but here we will consider one direct application.

In keeping with the title of this thesis, feminism can be used as a tool through which corporate structure can be radically redefined, in order to establish a corporate environment that is more conducive to ethically correct behaviour, conducted in a proactive and not reactive manner. A case in point is the manner in which feminism has the ability to redefine relationships. In her book *The Web of Inclusion*, Sally Helgesen discusses what she refers to as a new corporate structure, a web structure.[45] She argues that the rigid pyramidal hierarchy, which has been the standard for corporate structure throughout modernity, has now come under pressure. Helgesen shows that this pressure originates from the nature of the globalised economy, which is optimised by rapid change. A strictly defined system of management with multiple levels, each reporting to the one above, is incapable of a rapid response to entirely new situations. A web structure, on the other hand, is flat with the most power centred at the middle and not the top. The web is, however, not fixed; instead new connections are continuously forged. Meaning that response times to new situations are considerably lower, since the need for extensive reporting to senior (and distant) officials is removed. Decision making is localised and thus faster. Undermining the isolated nature of traditional management, also serves to prevent mistakes caused by a lack of direct knowledge of a situation.

On a more directly ethical point, the web system holds certain implications for employee relations. Employees are, through the web, involved in decision making and thus the future of the company, providing a greater sense of connectedness. This sense

[45] Helgesen 1995, 6; 10; 16 – 17; 23

of connectedness not only to the company, but also to fellow employees, makes for better working conditions. The further implications of which will be discussed in Chapter Five under the heading of corporate strategy.

1.4) Ethical relativism.

Ethical relativism is derived from the doctrine that truth may be relative, that is to say, to the standpoint of the agent perceiving that truth. A prime example of this being the statement that beauty is in the eye of the beholder.[46] From this it follows that the truth for one person or group, is determined by their position or context, a different person or group outside of that context would have no means of accessing said truth. Thus Europeans, for instance, would have no true right or even means by which to criticise female circumcision in Northern Africa. In practice, however, such acts are considered a criminal offence in Europe, but this difference still does not dispel or even threaten the relativism argument, as relativism would contend that the rightness or wrongness of an act depends on the values of the society within which the act takes place. Therefore, the act would be morally wrong in Europe, but acceptable in Northern Africa. What does undermine the argument, is moral interaction between societies and the global sharing of certain values. If relativism held true, practices such as the international extradition of criminals would not have been possible. In short, total relativism is not supported in practice.

If we now apply the concept of ethical relativism, not just to different societies, but to subsections of the same society, the conclusion may be drawn that business, as such a subsection, has its own set of rules and morals and can therefore not be judged from the position of ordinary society. An unscrupulous individual would be inclined to welcome this conclusion, since he or she would under such conditions, be free to do just about anything in the name of profit. Reaching this conclusion and successfully defending it are two totally different prospects, though. The Mafia, for one, function as a subsection of society with their own rules and values, which may include activities such as dealing in narcotics and committing murder. Society does not accept or allow such behaviour and the fact that the mafia has its own culture does not offer any measure of mitigation or excuse. Business and the Mafia may be two different

[46] Blackburn 1996, 326

entities, but the same point holds true: relativism is not supported in practice. Differences in business practice and culture consequently, offer no excuse for acting outside of the ethical boundaries set by society as a whole.

This criticism of relativism underlines the point that ethics and moral responsibility presupposes the principle of universalisability. The principle of universalisability holds that if a certain option is the correct option under given circumstances, it must also be the right option wherever the exact same circumstances are encountered. In other words, if unmitigated, and premeditated, murder is wrong in one country it must also be wrong in others. The principle also explains why a sub section of society, such as the business community, cannot break with the rules of society.

The principle of universalisability can of course be interpreted as a moral absolute. If this is the case, it might be argued that the principle would dictate actions across the board, thus being rather modernist in its approach to decision making, but such a view is not necessarily supported by the principle of universalisability. This principle holds that if an action is correct under certain circumstances, or within a certain context, it must always be the correct action under similar circumstances or contexts. The phenomenon of globalisation, on the other hand, shows that the world is in a perpetual cycle of fast paced change. It is exactly this change which undermines the notion that universalisability can be a moral absolute. If it was truly a moral absolute, then it would have maintained that if action x is morally wrong then it must always be wrong, irrespective of other contextual issues. Instead, the principle of universalisability can also be interpreted to require comparisons of significant similarities and differences between circumstances and contexts – always leading to different practical 'implementations' of universal concepts such as justice, equality or respect for persons.

An example of true moral absolutes can be seen in religious doctrines. So, for instance, the Roman Catholic Church maintains that certain acts such as adultery, the use of contraception and *in vitro* fertilisation, are always morally wrong irrespective of the circumstances.[47] Moral absolutes are therefore, as is especially clear from the

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[47] May 1989, 1

second and third examples, not primarily concerned with context, as is the case with the principle of universalisability as interpreted here.

1.5) Quantifying the old company.

As has been stated in the introduction to this chapter, the 'old' and the 'new company' are not clearly, or totally, separated in time. Instead there is a slow, but in all probability not a linear, progression from the 'old company' to the 'new'. To find a pure example of the 'old company' one would have to examine corporate thinking before the 1930s. Since then, ethical concerns have made steady inroads into mainstream corporate debate. This increase in corporate ethical awareness has, however, fallen short of resulting in the establishment of corporations that adhere totally to the principles of the 'new company'. The reason for this, as we shall see in Section 1.6, is not the strength of 'pro-old company' arguments but purely the pervasive and seductive nature of 'old company' thinking. In this section, we will investigate the 'old company' in its pure form. In Section 1.6 those elements of 'old company' reasoning which still persist, will be evaluated.

In his 1959 book, *A moral philosophy for management*, Benjamin Selekman already referred to corporate thinking which excluded[48] ethics, or moral issues, as the '*old philosophy*.' The characteristics of this '*old philosophy*', as identified by Selekman, provide the reader with a sizeable amount of information on the inner workings of the 'old company'. According to Selekman, the '*old philosophy*' is characterised by three principles: extreme self-interest on the part of businessmen,[49] a laissez-faire government approach to business regulations and a rather disturbing view of labour.[50]

Further, Selekman argues, businessmen subscribing to the '*old philosophy*' act from a position of self-interest. Responsibilities towards others are thus of no or little importance to those acting from this position. Some theorists might be of the opinion that self-interest inherently implies a measure of consideration towards others, as totally neglecting the interests of others in the business context would invariably bring about some form of sanctions or retaliation from them. This may well be the case, but

[48] Either passively or actively.
[49] *Businessperson* would not have been an accurate description in this context.
[50] Selekman 1959, 8 – 10

only as far as self-interest is viewed in the long-term. The extreme form of self-interest found in the '*old philosophy*' is limited to the short-term only. Indicative of such reasoning would be the approach of getting big financial results right away and dealing with the consequences later.

This self-interested approach usually takes place within the context of minimal government interference or regulation. Calls for a laissez-faire approach by government, is usually motivated on the basis that market forces will regulate business activity and so ensure the best possible results for all. Some, such as Milton Friedman, advance this view to its farthest extreme. Friedman contends that government regulations controlling professional practices, should be done away with. This includes all professional regulation, even that of the medical professions. Thus, anyone would be allowed to practise medicine, whether or not they are a qualified doctor. In Friedman's opinion this would, through the opening of the market, reduce the cost of healthcare, which would be to everybody's *advantage*.[51] Under this system, market forces would separate good healthcare professionals from bad ones, in the same way in which people stop buying products with a reputation for being substandard. The net result of Friedman's position is that the public must first experience bad services before they take their business elsewhere, which in the case of doctors could potentially be life threatening. To state that exposing society to such a system would be in everybody's best interest, thus does not follow.

The third of Selekman's principles is a unique view of labour, which is a hybrid of Ricardo's iron law of wages and an evolutionary interpretation of business practices.[52] Ricardo's iron law of wages, states that wages could never rise above the amount necessary for subsistence. Added to this, was the evolutionary view that the strongest individuals in society rise to prominence and power, while the rest make up the poor and subservient masses. Because their heightened status is conceived of as a natural result of the evolutionary process, employers felt they had neither responsibility towards, nor any interest in, the living conditions of their workers. The '*old philosophy*' thus assigns to businessmen the opportunity to act with impunity and

[51] Shaw & Barry 2001, 170; 171
[52] Selekman 1959, 9

without any obligations towards others. This clearly could not be a sustainable system, and opposition to it was widespread.[53]

By the 1970s ethical considerations had already started to show greater penetration into the field of business strategy. Such ethical consideration still held a distinctly disadvantaged position, though. In Kidd (published 1976), we find a number of proposed corporate decision making strategies, two of which clearly illustrate the position of ethical concerns.[54]

The first strategy suggests that a list should be made of all the possible objectives a company might have. The objectives listed by Kidd are as follows:

1. *Profit maximisation.*
2. *Sales maximisation.*
3. *Principle of rationality.*
4. *Safeguarding the firm's potential.*
5. *Safeguarding the firm's liquidity.*
6. *Safeguarding the firm's independence.*
7. *Prestige.*
8. *Power.*
9. *Ethical and social objectives.*
10. *Continuity of the firm.*

After compiling such a list, the company then assigns a weight to each objective and according to the weight assignment resources are committed to the objectives. It is clear from this approach to corporate decision making, that no positive link was perceived between profit maximisation and ethics, which is to say, the two were still seen as mutually exclusive. This point is clearly illustrated by the second of Kidd's lists, which presents mutually exclusive business objectives between which corporations must choose:

1. *Short-term profits vs. long-term growth.*
2. *Profit margins vs. competitive position.*
3. *Direct sales effort vs. market development effort.*

[53] Ricardo's iron law of wages became one of Karl Marx's favoured tools for undermining capitalism.
[54] Kidd 1976, 33; 34

4. *Penetration of existing markets vs. the development of new markets.*
5. *Related vs. non-related new opportunities as a source of long-term growth.*
6. *Profit vs. non-profit goals (that is, social responsibilities)*
7. *Growth vs. stability.*
8. *"Risk-less" environment vs. high-risk environment.*

This list goes even further by stating that ethical activities have a direct and negative impact on profit margins. By comparing the work of Kidd and Selekman, it becomes clear that there had been an increase in corporate ethical awareness, but that this increased awareness had not yet been translated into action.

Given the model of the 'old company' presented thus far, one might be tempted to conclude that the only 'virtue' present in the 'old company' is that of avarice and that the 'new company' signals a total move away from such an approach to business. That is unfortunately not the case, as a trip to any bookstore will quickly confirm, with many examples of business management literature proposing a near Machiavellian approach to doing business. In reality the two forms, 'old' and 'new,' overlap each other, which accounts for the possibility that aspects of both may even be present in the same company at the same time. The following section looks at elements of the 'old company' which still thrive even in the face of greater ethical debate.

1.6) Theoretical foundations of the old company.

1.6.1) The Myths.

Ethics is more than just the way in which a person or group act, it is in the first instance a way of thinking.[55] Unethical actions, on the other hand, may be the product of business people being unaware of business ethics principles and their importance. When it comes to the 'old company', there is not just a state of being unaware, there is actually a set of anti-ethical principles or beliefs at work. These can be divided into two groups, the mythical and the theoretical.

[55] Solomon 1994, 41. Also see Appendix B.

There are a large number of motivating factors for unethical behaviour, many of which may be specific to a certain type of behaviour, such as fraud.[56] If, however, one turns to the justifications offered by those who act unethically, six such justifications seem to be dominant. Rossouw, rather aptly, refers to these justifications as myths. Studying these six justifications one quickly realises why Rossouw chose to call them myths, as that is exactly what they are, both in function and proliferation. These six myths are: [57]

1. *Dog eat dog.*
2. *Survival of the fittest.*
3. *Nice guys come last.*
4. *It is not serious.*
5. *When in Rome.*
6. *All that matters is the bottom-line.*

These myths or 'adolescent clichés', predominantly tend to be found at the middle and lower management level, instead of the higher management levels, which should in itself say something concerning the validity of these positions.[58] Unfortunately, this also implies that ethical directives are not truly internalised throughout the company.

A) Dog eat dog.

The first myth holds that self interest is the only value that the business world adheres to, since business is a 'dog eat dog' endeavour. In such an environment the needs and interest of others are of no consequence and ethics get left by the wayside.

There is a distinct correlation between this myth and the theoretical work of Thomas Hobbes, a seventeenth century English philosopher. Hobbes held a view of humanity which largely opposed that of Aristotle, who saw man as a social animal.[59] According to Hobbes, all human actions, including the formation of society and kindness to others, is primarily motivated on selfish grounds.[60] Self-interest and self-preservation is thus the primary motivator of human actions. Therefore, we act on the premise of

[56] For a discussion of these and other issues relating to fraud, please refer to Chapter Four.
[57] Rossouw 2002, 12 – 21
[58] Solomon 1994, 35
[59] Hobbes did not reject the human need for interaction, instead he questioned the foundations of society.
[60] Molesworth 1966, 78

everyone for him/herself, but end up cooperating with one another because that is the best way of serving our own interests.[61] The catalyst for the formation of society, as presented by Hobbes, is learning or education. Human nature is inherently opposed to the formal restrictions of society, but learns to adapt to it for the sake of self-preservation.[62] Hobbes also wrote a great deal on scientific matters, but tended to be on the loosing side of almost every major scientific debate he took part in. Notable in this regard, was his longstanding feud with Robert Boyle. This, coupled with his ethical position, led the eighteenth century historian W. Dodd to state: "*what a common pest to society was the fallacious, proud, and impious Mr. Hobbes*".[63] The biased opinion of mister Dodd and others, was in a large part due to the common misconception that Hobbes was an atheist.[64]

Understanding the significance of science to Hobbes is of importance here, since it exposes a fundamental flaw in his system. Hobbes was greatly impressed by Euclidean geometry because of its provision of universal proofs, something which he found lacking in other sciences. Today we know that even though a straight line is the shortest route between two points, geometrically speaking, in reality, no line is truly straight. Thus, geometry may be mathematically correct, but due largely to Einstein's theory of relativism, we now know that geometrical calculations are not necessarily applicable to phenomena in the real world.[65] Similarly, we may find in everyday life numerous examples of people acting in a manner that clearly contradicts the system set up by Hobbes. Just consider the many instances of people sacrificing their own lives for the sake of others.[66] We can therefore conclude that human society does not, exclusively, operate on a premise of self-interest as Hobbes deduced.

What does this criticism of Hobbes mean for the dog eat dog myth? Since one's own interests are of importance in any business situation, the myth seems attractive. However, if a company (or an individual) truly acted in line with this myth, the reaction from stakeholders (such as customers and employees) would most definitely be negative and detrimental to the company's interests. One clear example of this was

[61] Campbell 1981, 73 – 75
[62] Molesworth 1966, 2
[63] Shapin & Schaffer 1985, v; 7 – 9
[64] Lively & Reeve 1989, 16 and Campbell 1981, 71
[65] Campbell 1981, 82
[66] This example also causes problems for the work of Maslow, which will be discussed later.

the public outcry in response to the clothing giant, Nike's reported use of child labour in Asia.[67] It can therefore be in one's own interest to act in the interest of others. A point which would not have contradicted the position held by Hobbes, had it not been for this conclusion being based on empirical evidence, instead of theoretical deduction.[68]

B) Survival of the fittest.

The second myth espouses the position that only the strongest or fittest will survive, which in turn implies that the 'survivors' must have had some stake in 'dealing' with, or 'getting rid' of those that did not survive. Again this position leaves little room for ethics and again this position seems attractive, because competition does form part of everyday business practice. Just being competitive, though, does not necessarily hold negative implications for ethics. Rossouw[69] uses sports as an example with which to explain the relationship between ethics and competition. Competition is a fundamental principle of both sport and the business world, but it is regulated in both of these contexts by rules and accepted moral standards.

If players decided to ignore ethical standards, by for instance, accepting bribes to fix matches, they would soon find themselves on the receiving end of sanctions such as expulsion. This is because their unethical actions had actually undermined the functioning of the game. Similarly, in the corporate world ethically deviant companies and individuals run the risk of being blacklisted by others.[70] Thus one can infer that competition is not sustainable without ethical guidance and therefore, ethics is a prerequisite for successful competition.

Finally, the survival of the fittest argument is in fact a misinterpretation of the law of evolution originally formulated by Herbert Spencer, and not Darwin, as is commonly thought.[71] Spencer's original law stated that: "*[T]he Law is not the survival of the 'better' or the 'stronger,' if we give to those words anything like their ordinary meanings. It is the survival of those which are constitutionally fittest to thrive under*

[67] www.cnn.com
[68] Because of his fascination with geometry Hobbes held that only theoretical deduction could lead to true knowledge. With induction based on observation being unreliable.
[69] Rossouw 2002, 14
[70] This is in fact already the case in South Africa.
[71] Werhane 2002, 327

conditions under which they are placed ..."[72] This definition of the law holds no inherently negative implications for business ethics, since companies always function within one or more communities. Furthermore, within the community context one will always find ethical beliefs, so companies which violate these will thus be less fit than those which do not.

C) Nice guys come last.

The notion that nice guys come last, the third myth, proposes that ethical business is bad business. According to this myth, those with true business acumen necessarily have to act unethically because ethics in business will, by definition, doom any venture to failure. This myth also has a measure of attraction through a distortion of the truth. Doing business in an ethically correct fashion may require one to refuse certain profitable opportunities, such as insider trading, but the long-term benefits of ethically correct actions far outweigh the short-term benefits of unethical behaviour.

For instance, the non payment of bills may help the bank balance in the short-term, but in the long run it may cause the company's demise. An example such as this may seem blatantly obvious, but unfortunately related actions, such as unethical accounting practices, still persists even though the potential penalties are clear.[73]

D) It is not serious.

The fourth myth suggests that unethical behaviour is not serious. According to this point of view, money lost through unethical behaviour is not truly lost to the economy, as it will find its way back into the system through investments, expenditures etc. Unlike the previous three myths, this myth contains absolutely no element of truth. Consider the many examples of dictators who have taken millions or even billions of dollars from their own countries and hidden it in foreign bank accounts, never to be returned to that country's economy. To further contend that unethical behaviour is never a truly serious offence, is also extremely short-sighted. Many corporate careers have ended in stagnation, with an employee never getting a promotion, nor any indication that he or she has done wrong. This 'no-advancement' strategy is one way for management to deal with unethical conduct by staff, short of

[72] Spencer 1891, 379
[73] One need only consider the examples of MCI WorldCom and Enron. (www.cnn.com)

dismissal. Dismissal would of course, mean that the company admits knowledge of the employee's wrong doing.[74] A further result of business people voicing a view such as this, is that it contributes to public distrust of a company or even the involved business sector as a whole, which in turn impacts negatively on profits. Substantial public distrust may even open the door for government regulation.[75]

Two of the most prominent corporate failures in American history, namely those of Enron and MCI WorldCom, provide excellent examples of why this myth holds no truth.[76] In the case of MCI WorldCom, its bankruptcy largely brought on by managerial misconduct, not only its employees and their families were affected, but also many other parties. The firm EDS, which had a substantial contract with MCI WorldCom, saw its share price plummet in the wake of MCI WorldCom's bankruptcy.[77] Clearly, the potential consequences of unethical behaviour are serious and extend far beyond the scope of a minor infraction.

E) When in Rome.

A visit to any major bookstore's business section, will provide one with a whole host of books on business customs, especially those of eastern countries. This situation may wrongly lead to the conclusion that if unethical practice is rife in a certain country, it is permissible to act unethically in that country. This myth can be described as a 'when in Rome do as the Romans do' situation. This line of thought tends to advocate that one should not attract negative attention by making waves and that individual resistance to unethical practices won't make a difference. In which case one might as well submit to said practices. This type of argument assumes that peer pressure is an acceptable excuse for wrong doing, but at least as far as the law is concerned, that is not the case. Admitting that you only committed a wrongful act after being pressured by your peers, may, in the eyes of the law, be a mitigating circumstance, but it is by no means a justification or a warrant to have committed the act.

[74] Solomon 1994, 35
[75] Solomon 1994, 36; 37
[76] Enron will be discussed in detail as a case study at the end of Chapter Five.
[77] www.cnn.com/moneyline

F) All that matters is the bottom-line.

The sixth and final myth contends that the only concern in business is making a profit. According to this myth, profitability is the only measure by which business decisions should be made. Those who advocate this position usually argue that since ethics is not primarily concerned with the bottom-line, it is not of any great importance. Any business does of course need to be profitable, at least in the long-term, or it will cease to exist. To say that turning a profit is the sum total of a company's existence is, however, a grave mistake and amounts to confusing a necessary condition for existence with the goal of existence. Furthermore, a positive link between ethically correct action and a healthy bottom-line has already been established in the preceding discussion. [78] Therefore, defining ethically correct actions on the one side and profitability on the other as polar opposites, is incorrect. Instead they appear to be closely linked. The link between ethical practice and profitability is one of the main themes which will be explored throughout this text.

Theses myths are easily dispelled, but they are not the only manifestation of the 'old company' that still prevails. In the next section, theoretical positions rooted in what Selekman called the '*old philosophy*', will be discussed.

1.6.2) And the not so mythical.

Contrary to what many of 'old company's' exponents would like to hear, one of the cornerstones of the 'new company' is the notion that ethically correct action is not a loss-making endeavour, but could actually be an exercise in profit maximisation. Of the ethical theories to be discussed in Chapter Six, virtue ethics appears to be the most difficult to reconcile with contemporary corporate practice, which presents exponents of the 'old company' with an interesting problem, namely the work of Adam Smith. Adam Smith is best known as author of *The Wealth of Nations*, described by some as the bible of capitalism.[79] Those favouring the 'old company' or aspects thereof, tend to read Smith's work in line with such notions. According to their interpretation of Smith, he favours minimalist government and total economic freedom for companies, through which they may each pursue their own self-interest. Any social good which is derived,

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[78] Refer to introductory discussion and the Merck case study.
[79] Solomon 2002, 31

such as the provision of services, is a purely secondary result.[80] Which leads proponents of this interpretation to conclude that companies have no real ethical or social responsibilities, other than the pursuit of profit.[81] This may, however, be a skewed image of Adam Smith's work.

Before *The Wealth of Nations*, Smith published his *Theory of the Moral Sentiments*, in which he states that the two basic virtues of a decent society are justice and benevolence.[82] The question now arises, how can one reconcile this with views expressed in *The Wealth of Nations*? In answer to this question, Werhane[83] argues that the previous interpretation of *The Wealth of Nations* is in fact flawed, since it is tainted by Herbert Spencer's evolutionary approach. Werhane concludes that the influence of Spencer leads modern-day readers to misinterpret Smith, even to the extent of assigning positions to him that he strongly opposed. One such position is The Separation Thesis, which, in short, contends that politics, economics and ethics are three totally separate issues. This position would obviously appeal to those still clinging to the 'old company's' ideals. Smith however, as Professor of Moral Philosophy at Glasgow University, argued expressly against any such separation. Another such position is the idea that private vices, such as greed, can be turned into public virtues, such as self-interest leading to public service delivery. This idea was in fact not propagated by Smith, but by his predecessor Bernard Mandeville of whom Smith was highly critical.[84] From these short excerpts of Werhane's argument, it becomes clear that also on the theoretical level, the 'old company's' foundations are deteriorating.

1.7) Establishing the new company.

1.7.1) A paradigm shift in progress.

The discussion thus far, has centred on the form and function of the 'old company', and in viewing these aspects, the foundations for the 'new company' have already been laid. Each of the 'old company's' central propositions have been rejected on ethical and financial grounds. This synergy of ethical and financial considerations forms the cornerstone of the 'new company' and as such, it positions ethicality as essential to

[80] Werhane 2002, 326
[81] One exponent of this view, Milton Friedman, is further discussed in Chapter Two.
[82] Solomon 2002, 32
[83] Werhane 2002, 326
[84] Werhane 2002, 334; 335

profit maximisation. As such, this synergy will remain as a central concept throughout the following chapters, within which the new challenges and opportunities, presented to companies operating in the globalised economy, will be examined.[85]

The influence of globalisation in this regard is important, as it assists in explaining the origins of the new challenges, with which companies are presented. Therefore, it also plays a central role in the demise of the 'old company', a demise that is not yet complete. As stated in the introduction, the 'old' and 'new companies' are artificial constructs, functioning as ideal states. In reality, instances of companies fully adhering to either of these two ideal states, would be minimal. The historically pervasive nature of the 'old company' paradigm, means that it is highly unlikely to, as yet, find an actual company fully functioning from a 'new company' perspective. Instead of investigating a business paradigm that is not yet realised, Parts Two and Three of this thesis will, as an alternative, concentrate on the economic and societal factors which are conducive to the eventual formation of the 'new company.' The discussion will not only look at the way in which these factors influence the nature of business, but also at how corporations react to them. For these reasons, the paradigm shift presented here is a paradigm shift in progress, largely motivated by the factors associated with globalisation.

Globalisation has, to a large part, been driven by technological advancements making instant global communication possible. The speed of this progress is evident from the following statement which was made more than twelve years ago. "*The first computer, the ENIAC, was an enormous contraption which weighed 30 tons and filled a large room. It had 18 000 valves, which generated great heat and failed continuously. Now a chip the size of your little fingernail offers the same amount of processing power. Back in the early 1950s IBM's Tomas Watson Sr. predicted a market for just five computers. Later it was estimated that total world demand would be for about twelve. Now there are as many computers as people.*"[86] An advancement that opened up a truly global marketplace not confined by national borders.[87]

[85] The focus of this discussion will now shift to the movement towards the 'new company', with the 'old company' as examined thus far, acting as a point of reference.
[86] Manning 1991, 29
[87] Rossouw 2002, 136

To contend with the emergence of a global market, one needs a global presence and one of the best ways of doing this is through partnerships.[88] This need to cooperate with others, results in greater scrutiny of a company's internal culture and practices. Consequently, companies have to adapt to international norms and standards. Such change is even more significant for companies hailing from former communist countries.[89] With the advent of globalisation, capitalism has become the dominant standard and countries with previously regulated markets have had to open their economies and expose their companies to international market pressures.[90] These pressures are brought to bear on all companies operating in the global market, but every company has to face these from within the laws and regulations of the country or countries that they operate in. Thus, national governments are also faced with challenges, such as ways of making local situations attractive to foreign companies, thereby attracting foreign investment.[91]

One of the first challenges that companies operating in the global market had to face, was exposure to varying exchange rates. Investments in foreign markets could thus appreciate or depreciate due to factors which are in no way linked to the company's operations.[92] One popular way of gaining access to new markets has been joint ventures, or cooperation, between multinational firms and smaller local firms. The smaller firm brings local knowledge and contacts to the partnership, whilst the multinational firm offers experience and resources. Even with joint ventures the political and economic situation in the target country remains an extremely important factor in determining the success of the deal.[93] Purely economical challenges such as these, will however not be discussed as a primary topic.

Cross-border cooperation extends to not just the corporate sphere, but also to the social and political arenas. One of the more promising effects of globalisation is the exporting of standards of practice and the global drive for a more humane world, which can be seen in initiatives such as the United Nations Global Compact.[94]

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[88] Manning 1991, 10
[89] Soete 2001, 21
[90] Manning 1991, 27
[91] Soete 2001, 37 – 42
[92] Lessard & Lightstone 1998, 144
[93] Merchant 2003, 23; 24
[94] Williams 2003, 1

Globalisation does not only refer to changes of an economic or financial nature, but also to social and cultural changes. A point which explicates the rise of new business concepts, such as stakeholder engagement, social and environmental auditing etc. These new business concepts or practices can be seen as resulting from a newfound corporate ethical awareness, constituting a move away from typical 'old company' rationale. Undoubtedly the most important point in the earlier discussion concerning the 'old company,' was the refutation of the separation thesis. Not only did we find a strong bond between business and ethics, it became clear that proper ethical conduct may even be a necessary precondition for continued business success.[95] Thus, one can state that: "*Business ethics is not ethics applied to business. It is the foundation of business. Business life thrives on competition, but it survives on the basis of its ethics.*"[96] In short, the 'new company' may be described as a company that is fully cognisant of the financial and social importance of proper ethical conduct and acts upon this knowledge. Which is to say that the company takes into account, not only its own short-term profit margins, but also the long-term sustainability of its actions in conjunction with responsibilities towards all relevant and legitimate stakeholders.[97] A further way of explaining this position, is to say that instead of acting for the sake of short-term profitability, the company must rather consider its own interests in a long-term view.[98] Sustainability is of the utmost importance, as it is: "*development that meets the needs of the present without compromising the ability of future generations to meet their own needs*".[99] This holds true for both society as a whole and its smaller constituents, such as companies.

The new business paradigm also brings with it new business principles, which may more readily be referred to as business virtues, as opposed to the 'virtues' of the 'old company'. One such principle is the ancient concept of *noblesse oblige*, the obligation of the nobility or wealthy. This principle simply expects the 'haves' to give to the 'have-nots'. In contemporary business practice this *obligation* does not necessarily, as

[95] Though it must be stressed that good ethical conduct is not a sufficient guarantee for business success.
[96] Solomon 2001, 39
[97] As shown earlier, not all stakeholders have legitimate claims.
[98] Buchholz & Rosenthal 2002, 304
[99] King 2002, 91

some would argue,[100] impact negatively on the bottom-line.[101] A prime example of this concept, is the social work done by many South African companies to improve infrastructure and education. Such projects do not just provide for the needy, they can also be seen as an investment in the country's economy, since higher levels of education and structural development will lead to economic growth, which in turn will provide more business opportunities for the companies that made the investments in the first place. A virtue such as compassion for instance, can within the context of the 'new company', be seen as a valuable asset. This is in direct opposition to the old point of view, which would have perceived such character traits as a threat to profitability. Since business is a distinct practice, one can infer that certain virtues are of greater importance within this practice, consider honesty and justice, to name just two.[102] Interestingly, Adam Smith had similar views: "*Smith repeatedly argues that avarice interferes with competition, hoarding capital slows down economic growth, and greed is antithetical to the ideal of a free political economy as Smith envisions it.*"[103]

The 'new company' then, can be described as an emerging business paradigm, which holds as fundamental to sustained profitability, ethically correct business practices.[104] As we will see, in Sections 1.7.2 and 1.7.3 below, the increased ethical awareness of corporations is linked to a new conception of the corporate position within society.

1.7.2) A social contract.

In Section 1.6.1, certain corporate myths were examined and shown to be false. A central theme that arose from this discussion was the connection between companies and society. A connection which was largely denied or grossly underestimated from the 'old company' perspective. To fully articulate this connection, we will now briefly consider social contract theory.

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[100] See Friedman's position as discussed in Chapter Two.
[101] Solomon 2002, 35
[102] Solomon 2002, 34
[103] Werhane 2002, 336
[104] The 'new company' is not yet established, but we are moving towards it. This differs some what from the original function and meaning of the terms 'paradigm' and 'paradigm shift'. The original terms, introduced by Thomas Kuhn, referred to a set of scientific beliefs and theories within a given discipline, which is eventually displaced or replaced by a newer set. See Kuhn 1977, 293 – 297; and Bird 2000, 65 – 96

Social contract theory was originally aimed at explaining or understanding the unique relationship between a country's government and its people, by exploring what a fair agreement between the two parties would look like. Thus, social contract theory provides the answer to what the constitution of a formal contract between society and government would be. Social contract theory in this form was the domain of a number of influential thinkers, such as the seventeenth century English philosopher, Thomas Hobbes.[105] The application of social contract theory has grown over the years, to the point where nearly any organisational relationship can be studied through the use of this theoretical approach.[106] Because of this long history, social contract theory also offers a number of different instruments to its contemporary user, such as 'the veil of ignorance' and hypothetical consent. Hypothetical consent directly determines the normative authority of any social contract, since this doctrine holds that a proposed social contract is only acceptable if it would be endorsed by free and rational agents.[107] Hypothetical consent, therefore, sets the stage for ethical judgements to be made, which can be done by showing that one of the groups, party to social contract, has violated it.

Secondly, the veil of ignorance, as conceived by John Rawls, deals with the rules and regulations within society.[108] Rawls suggests that if people are asked to propose rules for a fair and just society, they will invariably suggest rules that will in some fashion favour themselves. For example, collectors of foreign cars would want to ease import duties, religious fundamentalists would impose their beliefs on others, militant vigilantes would do away with gun control laws etc. To deal with this problem Rawls provides the veil of ignorance. As the name suggests, decisions about the form of a fair social contract should be made from a position of ignorance concerning one's own position within society. Thus one should agree on the rules and general setup of a fair society, before you know your own position within that society.

Many of the characteristics and foundational assumptions of the 'old company', as discussed earlier, are refuted or questioned on the basis of their lack of consideration

[105] Kenny 1997, 308 – 318
[106] Due to the introductory nature of this discussion, a hypothetical social contract between society and business will not be developed here.
[107] Donaldson & Dunfee 2002, 42
[108] Blackburn 1996, 391

for social contract issues. This lack of consideration can be seen as instances of negligence, such as reneging on obligations to business partners or the provision of substandard goods. One would be hard pressed to imagine any social contract, agreed upon by free and rational agents, which would condone such actions. Thus, such practices are open to ethical and quite possibly legal scrutiny.

Returning to the myths, it is possible to undermine each of these propositions using either hypothetical consent or the veil of ignorance. It would be difficult to imagine that free rational agents, with their own social standing unknown to them, would agree to a corporate social contract that absolved corporations of all responsibility towards society. The conclusion can therefore be drawn, that companies have certain obligations towards society and are, as such, accountable to society.

1.7.3) Accountability.

The principle of accountability, is grounded in the concept of taking responsibility for one's actions. This principle also extends to collectives such as companies, since as we have seen, they are inherently connected to society.[109] This inherent connection implies a measure of responsibility to each other. Although, society's responsibilities towards companies will not be investigated here.

Lovelock's Gaia hypothesis contends that the Earth and every living entity on it, is interdependent to such an extent that it forms a complete system. Thus the actions of any constituent of this system, will have effects on the other constituents and as such, all constituents should be held accountable for all their actions.[110] Accountability is of course not relevant when dealing with entities that are not self-aware, such as animals. The true utility of this hypothesis is in the application of its principles to human society, which implies that companies are socially accountable beyond the delivery of goods and services.[111] The reason being the effect that corporate actions have, whether intended or not, on other societal constituents. Thus the concept of accountability is central to the 'new company' paradigm, which sees the corporation as a profitable, but socially responsible and conscientious entity.

[109] This conclusion will be drawn and defended on legal and constitutional grounds, in Chapter Four.
[110] Crowther 2000, 24
[111] The Gaia hypothesis therefore, seems to fit neatly into the 'new company' paradigm, although the hypothesis as such will not be further explored.

Accordingly, accountability can be defined as being concerned with: "*an organisation recognising that its actions affect the external environment and implies an assumption of responsibility for the effects of those actions. It necessarily requires that the effects of the actions taken, both internal to the organisation and externally, be quantified, and more specifically, it requires that the quantification be reported to all the parties or stakeholders affected.*"[112] Companies are therefore not only accountable for all their actions, but are publicly accountable through the practice of social and environmental reporting.[113] Closely related to accountability is the concept of transparency, which mandates that all corporate reports present an accurate and honest portrayal of their subject matter.[114]

Accountability, or taking ownership of the choices that you have made, is closely related to the age-old concept of doing the right thing. But what is the right thing to do? Madelin, Pitton and Van den Bos provide the following answers: "*[W]e believe the right thing to do can only be identified through open dialogue with others ... A broad view of stakeholders and strong rules of transparency, inclusion and accountability are the crucial goals for the responsible corporation ... Finally, the World Bank, IMF and other Development Banks must grant greater concern to human rights as an issue for business*".[115]

The effects of corporate accountability reach much further than just the company's own practices and bottom-line. It can also affect the country in which the company does business, as business practices within a certain country plays a major role in how other countries and foreign companies perceive that country. So, for instance, one study found that the inflow of foreign direct investment (FDI) was hindered by high corruption and low transparency.[116]

Accountability therefore, holds major implications for corporate practices. Not the least of which are new forms of corporate reporting. It requires that greater ethical

[112] Crowther 2000, 37
[113] The practice of social and environmental reporting will be discussed in Chapter Three.
[114] Crowther 2000, 38
[115] Madelin, Pitton & Van den Bos 2001, 22
[116] Zhao, Kim & Du 2003, 41

consideration be brought to bear on all levels of corporate decision making. The full extent of this change will be examined in the next chapter.

1.8) Conclusion and summation.

In this chapter both the 'old' and the 'new company' have been introduced as ideal states, functioning as foundational elements for the rest of this thesis. They also represent the first step in formulating an answer to the central question of this thesis, posed earlier, as it establishes the context within which the rest of this study will take place. This context being the move from the one ideal state towards the other, as influenced by globalisation and related factors.

A major factor in breaking through the constraints of the 'old company' paradigm, is the newfound realisation amongst consumers, that they can take control of the market. This is achieved by publicly and actively supporting or avoiding certain products, targeting an entire company or a mixture of the three approaches. Thus, the old adage of the big multinational walking over the little man, is on the way out.[117]

One clear example of the growth of corporate ethical awareness, is the large number of firms and other organisations, now providing specialised consultancy services in this field. One such example is Business for Social Responsibility (BSR), which has expanded its operations into Asia, Latin and North America and Europe.[118]

Because the 'new company' paradigm is not yet realised, the main focus of this thesis will instead be the current global social and market conditions and more importantly, how companies deal with said conditions. The contention advanced here is that these conditions place demands on contemporary companies, which cannot be addressed from within the 'old company' paradigm. In an attempt to deal with these new challenges, companies are in effect initiating a paradigm shift, which will eventually give rise to the 'new company'.

The concept of the 'new' is by no means a purely academic one, as is seen from the following quote by M. R. Goodes, Chairman and CEO of Warner-Lambert Company:

[117] Bloch 2001, 8
[118] Cramer 2001, 9

"*Stop thinking 'customer satisfaction', start thinking 'customer enrichment' ... [which] leaps over the paradigms of the present to new technologies, new products, new approaches and, ultimately, wonderful new markets.*"[119] Customer enrichment is clearly a broad statement, with many possible implications. One such implication, is that the company can take steps to increase the quality of life of needy individuals, as supporting such a socially conscientious company could be an enriching experience. This example is connected to the concept of corporate social responsibility, which will be the primary field of investigation within the next chapter.

Chapter Two will also initiate the formulation of an answer to the central question of this thesis, which, to recap, reads as follows: *What are the core factors contributing to the formation of the new business paradigm and how do these undermine the old paradigm; what are the challenges faced by this new paradigm, both internal and external; how are these challenges dealt with; and lastly, what advantage, if any, does the new paradigm have over the old?*

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[119] Bloch 2001, 7

Case study:
Merck*

Background.
Merck, an American pharmaceutical company, had long been a pioneer in developing major new antibiotic compounds, beginning with penicillin and streptomycin in the 1940s. The company has a much longer history, though, with European origins, but this case study will not consider Merck's history prior to the Second World War.

In 1974 Merck obtained 54 soil samples from Japan. These samples were studied in the hope of finding new antibacterial agents. After extensive analysis, it was found that one sample provided exceptional results. The active ingredient that was eventually extracted and reproduced, ivermectin, was quickly incorporated into a number of veterinary drugs for the treatment of parasitic infections.

During this time Dr. William Campbell, one of the ivermectin researchers, realised that the substance can in fact, be used for the treatment of river blindness in humans. River blindness is a particularly vicious parasitic infection, which eventually leaves the sufferer totally blind. The decision to investigate this possibility, was unfortunately not without risks for the company. There was no guarantee that the drug would be effective in humans without fully testing it, but that would be expensive. Costs are not normally a problem, but in this instance there would be no possibility of recouping the expenses through sales, as the disease predominantly occurs in the poorest third world countries. Moreover, if the eventually formulated drug had any serious side effects, it could negatively bias consumers against animal drugs based on the same substance.

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* This case study was compiled with information gained from:
http://news.bbc.co.uk/1/hi/health/2255180.stm;
www.merck.com/about/feature_story/09162002_mectizan_congress.html;
www2.andrews.edu/~tidwell/bsad560/29MerckCase.html;
www.merck.com/newsroom/press_releases/corporate/2003_0911.html;
www.ccthinking.com/articles/view-article.php3?art_id=39;
www7.nationalacademies.org/archives/cbwlist.html

Eventually, Merck decided to peruse the project and a cure for river blindness was subsequently developed, but that was far from the end of the road. Although Merck had already done more than most companies would have, the company went on to distribute the drug free of charge and even contributed large sums of money to distribution programmes. Why did Merck act in this manner?

There are two primary reasons for Merck's actions, the first being its corporate culture. George Merck II, who founded the company in America, laid the foundations for the company's culture by stating that: "*We are workers in industry who are genuinely inspired by the ideals of advancement of medical science, and of service to humanity.*" Based on this cultural background, the company reasoned that they had an ethical obligation to assist those in need. Secondly, there was a hidden financial incentive. As the third world develops, its spending power will be enhanced and people will increasingly be able to acquire their own medicines. By which time, the Merck brand name will be established with a loyal customer base.

At first glance, this hidden financial incentive might seem somewhat far fetched, considering the extreme levels of poverty in the third world, but this is not Merck's view. From past experience Merck's management would be inclined to see the situation somewhat different.

After the Second World War, Japan was faced with a large outbreak of tuberculosis, but its people were too poor to pay for imported medicines. To address this situation, Merck distributed streptomycin for free. Today, Merck is one of the biggest pharmaceutical companies in Japan.

Discussion.

The importance of Merck's position in the Japanese market is clear. When seen in connection with the manner in which they obtained it, a link between ethically correct actions and profitability emerges. This link is one of the main propositions to be presented throughout this thesis, but it does have one important qualification. Profit is only realised when a long-term view is taken. The importance of a long-term view towards profitability and thus also sustainability, is a second point that will feature throughout most of this thesis.

The ethical foundations of Merck's decision, also present one with two interesting implications. The statement by George Merck II, implies a social contract-like view of the company's relationship with society. For this reason, the company could reasonably justify actions that might otherwise only have been seen as financially unsound. Secondly, the company was also aware that not embarking on this course of action could have serious negative consequences, especially as far as employee moral was concerned. Thus, the company was also fully cognisant of its own accountability.

This case study presents a number of clear facts, supporting the pro-ethical stance that is taken in this study. It also serves to undermine much of what the 'old company' holds dear. Thus functioning to justify a movement away from the 'old company' paradigm. Unfortunately, Merck also underscores the contention that the 'old and new companies' are only ideal states and that present companies have elements of both. While Merck was supplying free medicine to the Japanese people, it had high level ties to the American chemical and biological warfare programme. More recently, Merck has also been accused of overcharging the American government for certain medication.

Part Two: External issues

Chapter Two

- Corporate social responsibility
- Case study: ABI

Chapter Three

- In the public eye
- Case study: Ben&Jerry's

Chapter Two
Corporate social responsibility

2.1) General principles.

2.1.1) The discussion in Part Two.

Viewing the external issues involved in business ethics before the internal issues, may seem somewhat strange, but this move was encouraged by the questions of functionality and motivation. It would be functionally impossible to study a system without first exploring the context within which it operates. Therefore, issues outside of the company itself should be addressed first, as these will provide access to the context within which companies function. Secondly, external (mostly societal) conditions, not only provide the context, but also explain the new pressures and demands of the globalised economy, which in turn motivate corporate change, understood here as a move away from the 'old company' paradigm.

Studying this movement will provide a large part of the insight needed to eventually answer the central question of the thesis.[1] In this regard, Part Two will primarily focus on corporate social responsibility and public perception, specifically how it is influenced by corporate communication. The project of Part Two is to answer half of this question, that is the half relating to the external changes and pressures, associated with the current global business environment.[2] This will be done under the headings of 'corporate social responsibility' and 'in the public eye'. These two headings will guide the study of external pressures on companies, including the manner in which companies deal with these pressures. Thus answering half of the central question.

To fully understand both these issues, one must first gain an understanding of the unique relationship between companies and society as a whole. A relationship which Mervyn King describes in the following quote: "*In the current era, the company remains the key component of business. It is the chosen medium for entrepreneurs and business people to*

[1] *What are the core factors contributing to the formation of the new business paradigm and how do these undermine the old paradigm; what are the challenges faced by this new paradigm, both internal and external; how are these challenges dealt with; and lastly, what advantage, if any, does the new paradigm have over the old?*

[2] This approach is simplistic, but it avoids the possible confusion that can be caused by developing new and separate questions for Parts Two and Three.

perform their tasks. It has more immediate presence for the citizens of a country than governments can ever hope to have while it is the legitimate agent for profit making activities."[3]

King's formulation, seen in conjunction with the statements made in Chapter One, concerning accountability and social contract theory, provide the basis for what has become known as corporate social responsibility.

2.1.2) Introducing corporate social responsibility.

In keeping with the central question of this thesis, Chapter Two will be concerned with the societal position of companies and the manner in which they deal with this position. As we have seen in Chapter One, companies cannot operate in isolation from society, hence, companies can be held accountable for the societal implications of their actions. This is not to say that companies are totally disadvantaged by the new dispensation. Progressive companies can, in fact, mould the situation to their advantage, most notably through corporate social responsibility programmes.

The term responsibility, as understood in its normal usage, implies that the responsible party has some sort of obligation towards others. Thus the responsible party can be held accountable[4] for some or other aspect or state which occurred, as a result of actions taken by said party. The concept of corporate social responsibility is primarily fuelled by the realisation that, companies function within society and, as such, have an impact on society. This relationship between business and society is therefore an important factor in corporate decision making within the 'new company.'

As is evident from the term itself, corporate social responsibility (henceforth CSR), refers to certain responsibilities on the side of corporations towards other parties. Who these other parties are and what that responsibility is, seems to be the defining question concerning CSR. To this question, two possible answers present themselves.[5] Corporate philanthropy, seen as charitable acts by the company, is the first of the two possibilities. In this grouping one would find undertakings such as a company donating money to a school feeding

[3] King 2003, 8

[4] Accountability as a business concept was introduced in Chapter One, along with the implications of a company's societal bonds.

[5] Sheikh 1996, 15

scheme. Corporate philanthropy can therefore be described as charitable acts directed at needy members of society. Such an approach to CSR does not expect any direct financial returns on money spent. Any returns for the company, would be in the form of an improved corporate image with associated advertising potential.

The second answer or approach rests on the principle of trusteeship, according to which corporate directors act as trustees for shareholders, employees, customers and other stakeholders, including society at large. The trusteeship view initially implies a hierarchy, with directors having a greater measure of responsibility to some groups, such as shareholders, than others. If, however, we refer back to the discussion concerning the six myths, it becomes clear that some level of attention to the needs of other stakeholders, and society at large, would also be in the interest of the shareholders. Thus, corporate social responsibility entails corporate responsibilities towards society that go beyond the delivery of services and goods at a profit.[6] The World Business Council for Sustainable Development (WBCSD), defines CSR as follows: "*... the commitment of business to contribute to sustainable economic development, working with employees, their families, the local community and society at large to improve their quality of life.*"[7]

The concept of corporate social responsibility is by no means new and has been part of corporate theoretical debate. In practise, though, CSR has only truly started to feature over the last 25 years. Mobil Oil Company made the following statement as part of an ad campaign in the 1970s: "*In law, a company is a 'persona,' and thus a citizen, subject to all prevailing social obligations. As a citizen, a company's primary responsibility is, rightly, towards its immediate family which, in the case of a company, is its employees. But, like any other citizen, a company also has a civic responsibility towards the well-being of the community or country in which it operates. These two responsibilities constitute sound corporate citizenship.*"[8] This statement shows a clearly developed concept of CSR, even though the family analogy is somewhat worrying, as this could imply a paternalistic approach to labour issues. A question which also presents itself, after reading this quote, is: why is it that CSR has only more recently come to true prominence, if it already found its way into corporate thought 25 years ago?

[6] Buchholz & Rosenthal 2002, 303
[7] Holliday, Schmidheiny & Watts 2002, 103
[8] Kidd 1976, 86

To fully answer this question, it should be viewed as a two part problem. Firstly, why has CSR been in somewhat of a lull and secondly, why has it emerged from that lull? CSR, as presented here, is not without its opponents, none the less, it has become steadily more prominent as academic discipline since the early 1980s.[9] Even though the business world at large has only more recently started to catch up. This might, speculatively, be attributed to the largely uninhibited corporate zeal that the USA experienced during the 1980s. Although investigating that point might be better dealt with from a psychological perspective.[10] Secondly, the year 2001 saw major upheaval in the American corporate community, with both the Enron[11] and WorldCom scandals and the subsequent disintegration of Arthur Anderson. These scandals provoked a strict litigious response from American law makers, which demonstrated one of the major points made in Chapter One: ethically correct actions imbue a company with legitimacy. Thus ethically incorrect actions may lead to the downfall of a company, or at the very least, government imposed restrictions. Following these and other scandals, both locally and abroad, CSR and ethically correct corporate actions, in general, have gained a position of prominence. In South Africa, in particular, the heightened import of CSR has been driven by major changes over the last ten years in the country's social and political fabric.

Furthermore, CSR programmes can potentially benefit not only the performing company and the recipients, but also society as a whole. Take for example the European initiative entitled *Towards financial inclusion for all*. The initiative, which was launched in 2001, aimed to expand financial services throughout Europe, since access to banking facilities is crucial for economic activity. At the core of the initiative were three issues:

- *Promoting access to financial services for all to meet the arrival of the Euro.*
- *Stimulating Socially Responsible Investments.*
- *Ensuring better financing of small enterprises.*[12]

A programme such as this, not only brings previously marginalised people into the economy, but it also increases the client bases of financial institutions, thereby increasing

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[9] Buchholz & Rosenthal 2002, 310
[10] It should also be noted that Mobil may have been les than sincere, as is evident from another 1970s statement by the company, which will be discussed in Section 3.6.
[11] Refer to the Enron case study at the end of Chapter Five.
[12] Lebègue 2001, 10

their turnover. These possible advantages of CSR have attracted a lot of attention, leading to a number of different positions being formulated.

2.1.3) What is in a name?

The statement by Mobil Oil Company, quoted above, not only referred to a company's responsibility to others, it also introduced the term corporate citizenship. The concept of corporate citizenship can, depending on who uses it, refer to a range of different forms of relationship between corporations and communities. Milder forms merely advocate corporate awareness of public needs, while more radical forms can be described as a socialist view of corporations. The Corporate Democracy Act,[13] as discussed in Section 2.2.1, demonstrates the latter approach to corporate citizenship. In this project, however, corporate citizenship, corporate social awareness and corporate social responsibility will be used as interchangeable terms, describing the same concept viewed from within a free market perspective. Hence, it can be concluded that CSR does not oppose the profit incentive.

The first of the two central answers to the CSR question, was the practise of corporate philanthropy. A practise which, in its purest form, entails only charitable acts by the company, implying that the goal of profit maximisation is left by the wayside. A result which makes CSR a much less attractive prospect to most companies.

For profit to be made, favourable market conditions must exist and must be actively encouraged. In other words, companies must conduct their businesses in such a manner as to allow for profitable practises to continue into the future. Thus, sustainability is of vital importance and defined by the World Commission on Environment and Development (henceforth WCED) as follows: "*Sustainable development seeks to meet the needs and aspirations of the present without compromising the ability to meet those of the future. Far from requiring the cessation of economic growth, it recognises that the problems of poverty and underdevelopment cannot be solved unless we have a new era of growth in which developing countries play a large role and reap large benefits.*"[14] The WCED here clearly shows the future financial advantages of current CSR projects, such as adult literacy

[13] White 1993, 194
[14] Holliday, Schmidheiny & Watts 2002, 13

programmes. However, recognising the value of this is contingent on companies having a solid long-term focus which can stand up to stockholder demands for short-term profits.

CSR,[15] corporate citizenship, sustainable development and business ethics in general are all related through their ethical foundations and are, as such, all joined at the proverbial hip and thus integrated into the 'new company' paradigm. The 'new company' paradigm in turn, brings all these concepts into a relationship with corporate profitability. A relationship which had not been sufficiently explored in the past.

2.1.4) Contemporary possibilities within corporate social responsibility.

Just as business ethics as a whole has changed and grown in the second half of the twentieth century, so too has the concept of CSR. In 1959 Benjamin Selekman, wrote the following: "*the modern manager is continuously confronted by the necessity, on the one hand, of investing the power he wields with social and moral values if he is to hold it for any length and, on the other, of keeping his business productive and paying its way if he is to enjoy any opportunity at all to act responsibly.*"[16] This precarious tightrope walk which Selekman suggests still, unfortunately, describes the mindset of many international corporate leaders. When judged against the two business paradigms that were set up in Chapter One, we find that this tightrope perception does not neatly fit into either the 'old' or the 'new company'. Since the tightrope position does acknowledge corporate social responsibility, it falls outside of the 'old company' position, but at the same time there is still the perception of ethicality and profitability being at odds with each other. Thus the position also does not fully comply with the 'new company' paradigm, instead the tightrope perspective can be seen as lying between the two paradigms.

Dispelling the tightrope perspective isn't that difficult a task, though, as all that is needed is to consider one of the main contentions of this text, namely, that their exists a positive relationship between ethics and profitability. Consider for instance that companies have no qualms about spending millions on advertisements, simply because these advertisements increase sales, but what if money spent on public services programmes, such as adult

[15] Buchholz & Rosenthal 2002, 304
[16] Selekman 1959, vii

literacy,[17] was also seen in this light. Shifting perceptions in this manner would make the tightrope position totally obsolete.

The answer to the tightrope question presented here, gives rise to two new questions. Firstly, does this shift do justice to ethically correct actions if they are done simply in the pursuit of profit? Secondly, how would such a shift in the corporate mindset be achieved? Of these two questions, the second proves to be the easier to answer. If profit maximisation is positively influenced by this shift in perspective, then those with the most to gain by it would be the shareholders and upper management. Therefore, the change would be from the top down, which is also logical, considering that upper management and shareholders are the parties who would have to sanction the implementation of any major shift in corporate policy. In this one rare instance, those who would gain the most, financially, from corporate change are also those with the power to make it happen. One possible answer to the first question can be found by taking a consequentialist approach, i.e. if such a shift in corporate thinking does not take place, no actions to the benefit of society, other than service or product sales, will be undertaken by the company. The company itself, will also lose out on associated benefits. Thus, the community and the company will benefit from the shift in corporate thinking, irrespective of the company's motivation.

Aspects of Selekman's tightrope situation may have remained, but many other things have changed and nowhere is change more evident then in the field of labour. Selekman described the position of labour as follows: "*labour is a cost – indeed a major cost in doing business.*"[18] This is no longer the self-evident truth that it once was, many companies have a turnover of billions of Dollars and only have a hand full of employees. The electronic design and software industries serve as prime examples of this trend. In this regard the American company, Nvidia, is an excellent example. The Seattle based company designs a significant percentage of the three dimensional graphics accelerator microchips for personal computers, with ownership of both the Riva TNT and Voodoo brands, and more recently the contract to design all the graphics accelerators for Microsoft's X-box gaming system. The company, contrary to what one would expect, has a small number of employees and only designs the chips, all manufacturing is outsourced. Therefore the company is worth

[17] The specific CSR projects that a company may engage in would of course be context bound. Within the context of South Africa, higher levels of education are seen as being of cardinal importance to the general growth of the economy and as such would, in the long-term, benefit the company running the programme.
[18] Selekman 1959, vii

billions of Dollars, but is still relatively small as far as its workforce is concerned.[19] If social responsibilities were limited to employees and their families, this would pre-emptively address the issue, as employee benefits would most likely be the answer to all questions in the CSR field. Very few, if any, researchers in the CSR field would take this approach, which is why the concept of stakeholders is introduced. With a responsibility towards all legitimate stakeholders, and not just employees, seen as part of the current business context, it makes increasing sense for companies to take actions that go beyond the provision of goods and services. Such actions can in turn have a positive influence on a company's sales.[20] Therefore, if social responsibility and actions in accordance with said responsibility, is seen as a function of profit maximisation the problem is solved in a much more efficient manner. In other words, with this shift in perspective ethical and socially responsible actions can be seen as profitable actions, in the same way that the placing of advertisements can be seen as profitable actions.

In the discussion thus far, the 'new company' has been introduced as an ethical business paradigm which views ethicality and profitability as mutually supporting, rather than mutually exclusive as the 'old company' would have it. Since the relationship between ethics/ethicality and profitability is such an important one, the following section will exclusively investigate this relationship.

2.2) Corporate responsibility and profitability.

2.2.1) Theoretical positions.

The need for ethically correct actions on the part of corporations, is argued by many groups for a multitude of reasons. These reasons range from direct calls for extreme forms of corporate citizenship to purely monetary concerns. Not all these pro CSR and pro ethical positions are in line with the 'new company' paradigm. As has been shown, the 'new company' makes a strong positive connection between ethicality and profitability and does so without wishing to change the nature or function of corporate enterprise. Not all pro CSR positions are as moderate, though. In 1980, the Corporate Democracy Act was tabled before the American Congress, this bill would have burdened American Corporations with previously unthinkable responsibilities.[21] "*The bill, which would apply to all nonfinancial*

[19] www.nvidia.com
[20] As discussed in Chapter One.
[21] White 1993, 194

corporations with assets or annual sales of more than $250 million or more than 5,000 employees, includes the following significant provisions:

- *A majority of the board members of corporations subject to the Act must be independent; i.e., they cannot have been officers or managers of the corporation for a period of five years prior to their election to the board and they cannot have been officers, directors, employees, or more than 1% equity owners of any organization providing significant service to the corporation for a period of three years prior to their election to the board.*
- *Among the committees of the board there must be a public policy committee, which will be responsible for policies concerning community relations, consumer protection and environmental protection. A majority of members of this committee must be independent directors.*
- *Corporations must give notice two years in advance of any plant closings or relocations that will significantly reduce employment in the area and must compensate local governments for the resultant decrease in tax revenues.*

The intent of the Corporate Democratic Act was to reduce the control that managers and stockholders would have over corporate decisions and to bring corporations under substantial and direct public control. If this act had passed, corporations would have become essentially public institutions."

The act was not passed, but it provides a brilliant example of just how far some are willing to take corporate citizenship. The implementation of this bill would have definitely brought greater job security to many skilled and unskilled workers and it would have placed companies under community control, although the merits of this second point are debateable. In the end, however, the negative results of implementing the bill outweighed the positive, especially on financial grounds.

Costs incurred by corporations, due to factors other than normal operating procedures, are a concern to any manager. The traditional or 'old company' bromide concerning ethically sensitive actions on the part of companies, is that such actions only amount to extra expenses. The fact of the matter, however, is that the direct opposite could be the case. So for example, the implementation of a proactive ethical strategy or corporate code, will in fact cut down extra costs by preventing the situations which give rise to these costs. In this regard one need only to think of all the expenses incurred in a sexual harassment case, all of which could be avoided if the company has properly informed its employees as to what is considered proper conduct. If such boundaries are transgressed the company should also have structures in place to deal with the situation internally. The old maxim of putting the company first and never airing a firm's dirty laundry in public has gone out the window along with lifetime employment.

Employees in the current business world regularly move between companies, therefore those firms which encourage silence and try to cover up transgressions will soon find themselves dealing with a public embarrassment, whilst those firms with proper structures in place would most likely be able to deal with the problem internally. The structured internal option, not only prevents the public embarrassment of the firm, but it could potentially save the firm a large amount of money in legal costs and the cost of training new employees to replace those that may have left the firm. This situation is illustrated by the process of social organisation as described by George H. Mead: "*The principle which I have suggested as basic to human social organisation is that of communication involving participation in the other. This requires the appearance of the other in the self, the identification of the other with the self…*"[22] In a work environment people identify with their colleagues and with the firm's own norms. If these norms include silence as an aspect of loyalty to the firm but one of the employees is the victim of sexual harassment, he or she will be torn between the norm of silence and their own well-being. This conflict may well end with the person seeking help outside of the firm, which will not only damage the firm's public image, but also result in a number of extra costs for the firm, such as legal fees. If, on the other hand, coming forward with such problems within the firm was seen as an aspect of loyalty towards the firm, the firm would be able to deal with the problem internally at a greatly reduced cost.[23]

This example illustrates the advantages as far as internal regulations and mechanisms are concerned. Most opponents of strengthened corporate social responsibility would concede this point, but would still argue against any actions or policies concerning people other than employees and customers. It would be impossible to deal with every concern or objection presented, but some of the more prominent aspects must be addressed. One such position is

[22] Mead 1934, 253
[23] These issues are further investigated in Chapters Four and Five.

the very common attempt at opting out, an argument which follows along the lines of "*this corporation is intent on making money, charity is not our concern*", or stating that social responsibility falls solely to the government and NGOs. In short, this stance amounts to "*we as a company have no ethical stance or agenda*". That, however, proves to be a logical impossibility.[24] If a company or a private individual, for that matter, decides to take an ethically neutral stance, such a stance is in itself an ethical choice, for one is choosing to distance oneself from the needs of others. The fact that certain government departments and NGOs specifically cater to the social needs of the public does, therefore, not excuse any party from also addressing those needs. The only way out is to excuse oneself, thus to make a choice, an ethical choice. Ethical neutrality is therefore impossible, and corporations must take ownership of their ethical stance.

The above formulation, does not imply that companies are obliged to embark on some sort of ethical crusade in order to save all mankind. Instead, the 'new company' (or at least companies breaking with the 'old company' paradigm) holds ethically correct actions, both internal and external, as a function of profit maximisation. The concept of ethically correct actions encompasses a wide variety of aspects, ranging from the treatment of workers to not doing business in countries with a bad human rights records. The scope is enormous, precisely because one would be hard-pressed to find any aspect of a corporation which is not ethically laden to some extent.

2.2.2) The financial incentive.

The need for an ethical framework is evident from the preceding discussion, but some business people and theorists still remain opposed to the idea. To explore the reasons for this, the Centre for Corporate Citizenship at Boston College and the Institute for Social and Ethical AccountAbility, with the support of the Ford Foundation have launched a web-based initiative called Conversations with Disbelievers.[25] One of the main benefits of this programme is that it gives clear and concise results that act as a showcase for the benefits of higher levels of corporate citizenship. The following discussion will focus on these

[24] The following argument is developed as an adaptation of Gadamer's argument concerning prejudice. Gadamer contends that it is impossible to have absolutely no prejudice, since in denouncing all prejudice one already displays prejudice against prejudice itself (Gadamer 1975, 250 – 269).

[25] Weiser & Zadek 2000, 1; All quotes pertaining to Conversations with Disbelievers are from the PDF file which can be downloaded at www.coversations-with-disbelievers.net. The authors are John Weiser and Simon Zadek.

results and present them in four categories, each category will describe the newfound benefits of increased corporate social and ethical awareness.

A) Stock price and financial performance.

In this study companies with a long-term vision that extend beyond profit taking, referred to as Built to Last or BTL companies, were compared to companies with a profit only outlook. The results were quite clear:

- *BTL companies had a return on equity that was 9.8% higher over a 10 year period than non-BTL companies. The ten-year relative total return to shareholders averaged 63.6% higher for BTL companies than non-BTL companies.*
- *BTL companies also out-performed their non-BTL counterparts on social responsibility measures. Using Kinder, Lydenberg, Domini data for five variables, Graves and Waddock found that BTL companies outperformed non-BTL companies by roughly 11.6%.*[26]

These findings serve yet again, to undermine the validity of the myths discussed in Chapter One. From these figures, the potential benefit for companies that adopt this approach, becomes clear. Accordingly, a situation may arise where companies start acting in an ethically correct manner for questionable reasons. This is known as the doctrine of 'enlightened self-interest'. It also holds serious implications for the position taken by Milton Friedman.[27]

B) Reputation and risk management.

Corporate reputation and risk management is an extremely important factor in corporate decision making. With corporate reputation being so important, especially to companies that deal directly with consumers, it is important to determine exactly how these perceptions are formed. Accordingly, one study found that 25% of IBM's television coverage in the US was related to what is referred to as citizenship activities. On the same topic, it was also found that 89% of all Americans thought that large companies have a public responsibility that reaches beyond profit maximisation. Furthermore, 42% of respondents said that they held companies responsible, to a certain degree, for assistance in solving problems such as crime, poverty and lacking education. Corporate reputation also

[26] Weiser & Zadek 2000, 2
[27] See Section 2.4.

directly influences customer behaviour: 46% of the respondents said that they have made purchases or publicly supported a company solely based on their perception of that company's positive attitude towards social responsibility. The statistics mentioned here clearly show the positive influence that socially responsible actions by a company can have on that company's profit margin.[28]

C) Human resources.

Human resources is one of the areas of corporate social responsibility that traditionally enjoyed a larger measure of positive consideration by corporate decision makers. This does not mean that the subject is sufficiently dealt with or understood. Many people would be quite surprised, to find the true extent of the effect that human resources management can have on the company as a whole. One of the most obvious benefits of proper human resources management is improved employee loyalty and job satisfaction, which in turn leads to extended employee retention. The savings which this represents, especially in recruitment and training, are quite substantial. According to Weiser and Zadek, community engagement by corporations had substantial positive influences in the following areas:

- *A company's support of employee volunteerism directly influences employees' feelings about their jobs. For example, employees involved in employer-sponsored community events were 30% more likely to want to continue working for that company and help it be a success.*
- *Employees who perceive their companies as having good corporate social performance view them more positively and are therefore more committed to them. The level of activities (including cause-related marketing, volunteer programs, and product and service innovations) is a primary determinant of corporate social performance (The Council on Foundations, 1996).*[29]

Weiser and Zadek also report similar findings in Europe, unfortunately the study did not extend to Africa. This does not negate the importance of the study for Africa, although the exact figures would vary, a certain measure of correlation could be expected, especially considering Africa's greater need in respects to poverty elevation, job creation and other related issues. The positive benefits of proper human resources management does, however, not stop at savings in the same sector. In 1997 Sears published a detailed report

[28] Weiser & Zadek 2000, 3
[29] Weiser & Zadek 2000, 4

containing a rigorous quantitative model that analysed and predicted the relationships between management quality, employee behaviour and financial performance. Two main points of this report are listed below:

- *Improving employee attitudes by 5 points drives a 1.3 point improvement in customer satisfaction (as measured by Sears' surveys).*
- *Improving customer satisfaction by 1.3 points drives a 0.5% improvement in revenue. At Sears, 0.5% improvement in revenue means additional sales of $65 million per year. This shows the potentially powerful bottom-line impact of improvements in employee attitude at Sears.*[30]

These findings are sure to raise a few eyebrows, for they clearly show the enormous financial benefits of increased corporate social and ethical awareness, a move which is traditionally considered to amount to nothing but an increase in costs.

D) Marketing and sales.

Sales and marketing personnel of companies the world over, are focused on customer loyalty and brand visibility. The potential for increased corporate social and ethical awareness in this respect is immense, since many companies today spend large quantities of money on social upliftment projects, which in turn gain a lot of free exposure, such as news coverage. These companies then not only gain primetime advertisements, but also reap the rewards of a positive public image. One American company, Diageo Plc, experienced a sales increase of 37% as a direct result of a number of social projects. Likewise a British study found that 86% of consumers held companies, which play an active role in the community, in much higher regard that those that do not. Yet another American study found that in 1998, 65% of American consumers were wiling to switch brands or stores based on the store's or brand's support of social causes.[31] This yet again illustrates the tremendous monetary benefit of increased corporate social awareness.

The final word here goes to Robert C. Solomon who points out three more financially grounded reasons for companies to take business ethics seriously:

1. *Ethical errors end careers more quickly and more definitively than any other mistake in judgment or accounting.*

[30] Weiser & Zadek 2000, 4
[31] Weiser & Zadek 2000, 5

2. *Ethics provides the broader framework within which business life must be understood.*
3. *Nothing is more dangerous to a business, or to business in general, than a tarnished public image.*[32]

In the business world, an error may lead to the loss of future business, therefore employees who jeopardise a company's reputation, and thus its profitability, may well find themselves fired without much ado. This point has been made earlier and also ties in with the discussion of team players and non-team players in the next section.

There are also a number of other avenues that could be pursued, such as bursaries to needy students. A common practise, in this respect, is that students who receive bursaries are required to work for the company which gave them the bursary, for a certain period of time after completing their studies. Such a measure provides the company with a qualified and grateful employee, as return on their initial investment. With the value of employee satisfaction already discussed, measures such as this show their true potential: a positive impact on profit maximisation, which has hitherto been mostly overlooked.

Thus far the importance of increased corporate citizenship and the social and financial benefits thereof, have been examined. In so doing the gap between traditional perceptions and current possibilities have been exposed. Working against this background, the focus now shifts to corporate strategies and the influence of public perception.

2.3) Public perception and corporate strategy.

2.3.1) Public perception.

The debate surrounding corporate citizenship and CSR has been with us for quite some time now, but instead of reaching saturation, the debate is only now starting to emerge from its infancy. Before the current debate is joined, however, we should look at its origins. "*It is a fact that power as a technical entity – as organised force or energy – is, with the exception of moral power, amoral or ethically neutral, that gives rise to the moral dilemma of power. In fact, it is this separation of the technical powers from moral power that is intrinsic in the dilemma of the businessman and for that matter, of all other administrators*

[32] Solomon 1994, 35; 36

who find it necessary to use power with, and over, men in carrying out their respective jobs. For man is not only the creator of power, the decision-maker on goals toward which it is to be used, and the actual administrator of power, but he is also the carrier of moral values. He is thus deeply and constantly involved in the ethical implication of the uses to which power is put."[33]

If one closely scrutinises the model of power and ethicality presented here, an inconsistency becomes apparent. Power, especially power over people, cannot exist if it is not executed[34] and Selekman & Selekman (1956; not to be confused with Selekman 1959) argue that it is in this execution that ethical considerations enter into the equation. However, if execution is a necessary condition for the existence of power, then power cannot be ethically neutral, as the condition for its existence has an inherently ethical nature. Even though Selekman & Selekman did not go far enough in their analyses, they still held that ethics was an integral part of business. The social situation, which served as backdrop for their work, has changed significantly over the last forty-seven years. One of the most notable areas of change has been public perception of big companies and businessmen in particular.

Benjamin Selekman wrote the following in 1959: "*It has always been taken for granted that the American businessman was a moral and religious man, even though his daily practices might at times have been questioned.*"[35] Now, more than forty years later the public perception of big business has changed considerably, as is clear from the following: "*Enron was a case of total moral bankruptcy. It was not just the company and its executives. It was not just the accountants. They had to get legal opinions from a law firm. They had to get derivatives from the banks and Wall Street firms. One group alone could not have done it.*"[36] The contemporary public image of the corporate manager, is most definitely not that of a moral and religious person. In the public eye, one could quite easily equate corporate success with ruthlessness. This is a largely globalised view, but it is held more strongly in some countries than others, one such country being South Africa.[37]

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[33] Selekman & Selekman 1956, 27
[34] A powerful person's choice not to act is still a form of execution of power, since he or she would not have had to make that decision had they not had certain powers.
[35] Selekman 1959, 3
[36] M. Siebert, as quoted in Horner 2003, 22
[37] Malan & Smit 2002, iii

Terminology, such as moral degradation and the deterioration of social values, come to mind, such sentiment proves to be quite popular, but it is not necessarily an accurate interpretation of the situation. One should bear in mind that, along with changes in business practices, there has also been huge changes in the level of publicly accessible information. In short, the public has better knowledge of corporate activities and corporate blunders are exposed in the public sphere and on a much larger scale than before. The net result of this being that things may not have changed as much as some people may think, the bigger shift has been in public perception and public access to information.

2.3.2) Corporate strategy from an ethical foundation.

The immense potential of corporate conduct to negatively impact, both the company's ability to do business and the company's public image, has been stressed in the preceding discussion. As has been shown, stakeholders are not only more conscientious concerning a company's ethical track record, but it has also become considerably easier to obtain information about such issues. Therefore, companies have to approach all aspects of their business in an ethically guided manner, which will consequently do away with Selekman's tightrope. For such a transformation to succeed, it has to be supported at the managerial level. Malan and Smit also place great emphasis on ethical corporate leadership as a strategy for reforming corporate behaviour.[38] In their work Malan and Smit progress to the formation of an anti-corruption / anti-incompetence plan.

Fully formulating such a plan here might stretch beyond the boundaries of this thesis, hence, we will only view their plan on an introductory level. The first step in their plan is the employment of ethical leaders for the corporation. Some of the benefits of ethically correct actions for companies have already been discussed, so too has the functionality of reform from the top down. On this first step Malan and Smit then build by looking to the future. The second step is to design a company in such a way that it not only deals with present challenges in an ethically competent way, but would be equally capable of facing future challenges with the same efficiency and resolve. Thirdly, effective processing systems must be developed which "*will include feedback mechanisms and methods of checking up on the organisation's performance. The fourth and last step is to energise and*

[38] Malan & Smit 2002, 163

mobilise the organisation (i.e. its staff members) to fulfil its purpose".[39] This fourth step ties in well with the Sears study, mentioned earlier and the approach as a whole is indicative of a break with the 'old company' paradigm. What makes this plan particularly valuable is its long-term focus, since, as we saw in Chapter One, corporations with a short-term only point of view are much more likely to act in an ethically incorrect manner.

If managerial strategy is the point of origin for newfound corporate ethicality, then employees represent the medium through which the result must be achieved. As such employees need not only be motivated to work towards such a goal, but must work together to achieve it. Something which is undermined by a leader who is extremely individualist, or by non-team players, as these people generally conform to the following:

- *Personal consideration and self-interest primarily drive such leaders.*
- *Leaders see the corporate environment in which they operate as an opportunity for achieving personal gain.*
- *People discard collective interests for egotistic considerations.*
- *Respect for human dignity and life is degraded to indifference, or becomes simply an object of irritation.*
- *Leaders are not prepared to make any effort to counter the wave of corruption and abuse, if doing so in any way threatens to harm their image or position.*
- *Leaders renounce inner moral guidance and control, instead giving in to the demands of the situation in which they find themselves and applying external definitions of what is permissible.*[40]

Ethicality as a corporate strategy, consequently, requires managerial guidance from team orientated individuals to succeed. This point represents the culmination of all the work done until now, as a company which reaches it, not only rejects the 'old company' paradigm but also acknowledges the positive relationship between corporate ethicality and profitability. Unfortunately, some people remain disbelievers and in the following section we will examine their position by way of reference to Milton Friedman's[41] view on CSR.

[39] Malan & Smit 2002, 163; 164
[40] Malan & Smit 2002, 60
[41] Friedman's views on government regulation were discussed in Chapter One.

2.4) Competing theories.

Milton Friedman's stance on CSR and corporate ethicality can be summarised as follows: the only *social* responsibility of companies is to make money, or stated differently, to maximise profits so as to satisfy the interests of shareholders. Friedman's position has been emulated by others, some even referring to Friedman's law, but to that we will return later in this discussion. Friedman's position appeals to corporations as a backdoor, which allows 'escape' from any form of ethical consideration, which is not enforced in one form or another. Friedman's argument basically boils down to the first of Solomon's three Cs, namely, Compliance,[42] but before we consider the essence of Friedman's argument, some insight may be gained from viewing his argumentative style.[43]

One of the main points of contention in this thesis, is that ethical considerations can positively impact on the goal of profit maximisation. Milton Friedman holds the opposite to be true, but instead of presenting his case and then defending it, he attempts to conduct the presentation of his argument in reverse.[44] Friedman does not present us with an open point of view, instead he formulates a defensive argument that attempts to bully the reader into siding with him. He does not even in theory accept, the possibility of a position that contradicts his own. His argument also holds some serious implications if considered from a sustainability point of view.[45] Thus he starts his argument, not by putting forward his own point of view in an open fashion, but by launching an attack against all those who would disagree with him. This *Ad Hominem* attack goes much further than just reacting against possible criticism, as is clear from the following remark concerning the advocates of increased corporate ethical awareness: "*In fact they are - or would be if they or any one else took them seriously - preaching pure and unadulterated socialism.*"[46] Someone who supports "*pure and unadulterated socialism*" would most definitely not agree with corporate profit taking in a capitalist system. On the contrary, they would most strongly oppose it. The *Oxford Dictionary of Philosophy* defines socialism as a: "*Political system in which the (major) means of production are not in private or institutional hands, but under*

[42] Solomon's three C's are compliance, contributions and consequences. As discussed in Section 1.1.1.
[43] For this reason, all references to Friedman's argument will refer to Friedman 1993, as a general discussion of Friedman's theory would not open his argumentative style up to scrutiny.
[44] Friedman 1993, 162
[45] Holliday, Schmidheiny & Watts 2002, 13
[46] Friedman 1993, 162

social control."[47] However, this thesis strongly advocates increased corporate ethical awareness, but at the same time also emphasises the positive effect it would have on corporate profit taking, under the globalised capitalist system; a position which clearly contradicts Friedman's argument, since CSR is advocated largely on a capitalist basis and not a socialist basis as Friedman contends.

In the quoted sentence the reader is confronted with three assumptions. Firstly, Friedman assumes that all those in favour of some sort of increased corporate ethical awareness are only going as far as paying lip service to these ideals and that this is a conscious act, since, according to him, they do not even take themselves seriously. If this is, however, not the case, then they must be advocating socialism. It is quite easily conceivable that some people would advocate increased corporate ethical awareness for purely utilitarian purposes, such as promoting the corporate image or simply to comply with the law, but this possibility is also not acceptable to Friedman. Thus Friedman states that if advocates of increased CSR are sincere in their advocacy, they must be socialists. Considering the socio-political changes of the last two decades, Friedman's statement fails to carry any weight as a critique of CSR. Socialism as a pure system may have failed, but its ideals are by no means dead. Even in the capitalist heartland of the USA, we find the ideas behind social democracy at work. Even if 'workfare' is replacing welfare in the USA, the system still rests on the principle that the needy should be supported.[48] Pure socialism may have failed, but the hybrid with democracy is commonplace throughout most of the western world in one form or another.

But this is of no concern to Friedman since he, secondly, assumes that socialism is inherently bad and that everyone is in agreement on this, which is why he uses it like the mark of the devil with which to brand all those who may oppose him. Thus, all those who advocate increased corporate ethical awareness are either busy with an activity that is inherently bad or they are not sincere in their advocacy of this position. Thirdly, Friedman contends, the first two points notwithstanding, that nobody takes his opponents seriously anyway. Friedman makes his opponents out to be, amongst other things, the nonsensical advocates of an economically negative position. This could not be further from the truth, as

[47] Blackburn 1996, 354
[48] www.cnn.com/moneyline

has already been shown, increased corporate ethical awareness offers a great many advantages to companies and society alike. Furthermore, increased corporate ethical awareness does not have a singularly negative impact on the bottom-line. The three assumptions are thus, all refuted, which leaves the reader with one final question. Why would Friedman go to so much trouble to attack his opponents before stating his own point of view?

Friedman explains his own position as follows. "*In a free-enterprise, private-property system, a corporate executive is an employee of the owners of the business. He has direct responsibility to his employers. That responsibility is to conduct the business in accordance with their desires, which generally will be to make as much money as possible while conforming to the rules of the society, both those embodied in the law and those embodied in ethical custom.*"[49] Judged on face value, Friedman's statement actually seems to be in line with the proposed contentions of the 'new company' paradigm, which is rather odd, considering his opposition to CSR. This discrepancy is due to differing interpretations of the previous quote.

If we take into account Friedman's first quote it is clear that he sees some form of unison amongst his readers on certain issues, such as the inherent evil of socialism. In the second quote, Friedman appears to be doing exactly the same thing. He contends that companies should operate within the law and within accepted ethical constraints, but his understanding of these issues is singularly American. Friedman does not allow for other societies to have different laws and ethical customs. Since the ethical constraints on a company (enforced through legislation) in a country such as the USA are much less than they are in post-apartheid South Africa the fallacy in this assumption is clear. Not only do people's views within a society differ, but social practices differ greatly from one society to another. Friedman's ideas on what exactly constitutes a socially responsible action has, as will be shown shortly, a very strong nationalistic taint, which clearly ties in with his strong opposition to socialism. Friedman contends that social responsibility lies not with the company but with the individual, in other words, a manager may feel inclined to help the poor, but to do so he may only utilise his own time and resources and not the company's. One example of such an action that Friedman gives, is the employee who quits his job to

[49] Friedman 1993, 162

join the military and by so doing serves his countrymen, his nation. Being taught to kill and then being put in a position to do so is, however, not what most people would have in mind when they refer to social responsibility.

To distinguish between the actions and responsibilities of the private individual and the individual as corporate manager, Friedman uses the terms *agent* and *primary*. When persons act in a private capacity and use their own time and resources, such an action is *primary*. When, on the other hand, a person is acting as a corporate manager, the person is acting as an *agent* for the corporate shareholders. Thus, when acting as corporate *agent*, no action may be taken which contradicts the wishes and directives of the corporate shareholders.[50] When Friedman comes to acts of the board or the managers, reflecting a positive attitude towards social responsibility that goes further than what the law stipulates, he describes this as a direct conflict of interests. What happens in such a case, according to Friedman, is that a corporate *agent* is misusing his or her corporate authority, to act on convictions held in a *primary* capacity. Friedman states the general notion as follows: "*In each of these cases, the corporate executive would be spending someone else's money for a general social interest.*" [51]

It all boils down to whose money it is, if it is not your money, you may not spend it on any concerns other than those of the company. Two of the biggest problems with this argument are the following; firstly, what if the people who are the primary shareholders in the company, wish to conduct an ethically responsible business. According to the quotes from Friedman's essay this would make them practitioners and advocates of socialism, who are at the same time successful capitalists and that clearly is a blatant contradiction. Since there are however many such cases,[52] we can only conclude that Friedman must have made a mistake in one or more of his assumptions. Secondly, Friedman assumes that for a company to act in a socially responsible way would negatively influence profits, but throughout this thesis his assumption is shown to be false. A third and final criticism concerns Friedman's conception of what constitutes profits. His calculations, typical of the 'old company' paradigm, do not include the social and environmental costs of corporate

[50] Porter & Kramer 2002, 58
[51] Friedman 1993, 164
[52] The Merck and Ben&Jerry's case studies serve as good examples of this.

practises. If one included such factors in the calculation, the positive impact of corporate ethicality, in preventing such costs, would be much more obvious.

Justification for one's actions also plays an important role in Friedman's views on CSR. "*The whole justification for permitting the corporate executive to be selected by the stockholders is that the executive is an agent serving the interests of his principal. This justification disappears when the corporate executive imposes taxes and spends the proceeds for 'social' purposes.*"[53] Again this is because Friedman assumes that 'social' purposes impact negatively on the goal of profit maximisation. A conclusion which he reaches because he incorrectly conceptualises social purposes, as charitable acts which bring about no financial or other returns for the company. The only financial implications that Friedman envisions in this regard are costs, which according to him, belong to the public and not the private sector.

As far as justification is concerned, Friedman states that only civil servants are justified in taking such social action and that they are elected through voting or appointed by the government, therefore *agents* of a corporation have no justification in taking such actions. In this argument Friedman has also chosen his examples with care. He names the training of the hard-core unemployed and the restraining of inflation, these are things that most companies are not equipped to deal with either at a financial or technical level (at least not on their own). He sets the stakes so high that one is forced to agree that almost no company can tackle these issues and that corporate social responsibility is therefore nothing more than a pipe dream. Friedman is, unfortunately, not being honest in his choice of examples. These extreme cases are not what most people would have in mind with corporate social responsibility, although they are included. In these extreme cases companies would typically contribute by jointly financing experts in the fields, such as adult education programs. A much more realistic social contribution would, for instance, be bursaries and grants to non-employees.[54] Friedman's argument also appears to be based on a radically short-term view, which is only concerned with short-term profitability and neglects long-term issues such as the growth of the national and global economy. Neglecting long-term

[53] White 1993, 16
[54] Moses & Voorhes 1991, 1

concerns can lead to a company running out of room to grow, thus introducing the possibility of stagnation and even disintegration.[55]

Lastly, it should be noted that Friedman originally developed his argument in the 1960s and 70s, when government regulation played a much less active role in corporate practise.[56] This situation, yet again, reaffirms the need for corporate self regulation. Subscribing to Friedman's doctrine now, would be to run a company on principles that are forty years old and thus totally out of touch with the current corporate and social reality.[57] Furthermore, all the named objections to Friedman's argument could not have been raised if we did not initially establish a positive link between CSR and good ethical conduct on the one hand and profit maximisation on the other. In further exploring this link we now move to investigate ethically motivated investments.

2.5) Socially responsible investments and charity.

As a further rebuttal to Milton Friedman's position, this section will examine CSR both as a financially viable act and as classical charity. After which the phenomenon of socially responsible investment (SRI) will be used to show the extent to which ethical principles can influence business activity.

One of the central problems associated with CSR is its effectiveness. Many argue that companies do not have the capability to deal with social problems. Thus, any money spent on CSR is lost to the company without society actually gaining anything from the venture.[58] This concern is analogous to one of Friedman's points and makes a similar mistake. Companies are not set up to deal with major social problems, instead they are aimed at providing goods and services at a profit. However, through the pursuit of profit, companies are in the position to attend to specific societal situations. For instance: building a youth centre for the impoverished community near a factory, which provide young people with structured activities after school. This, in turn, helps to reduce juvenile vandalism on the factory site. Thus, in this example CSR can be justified by referring to the long-term

[55] Holliday, Schmidheiny & Watts 2002, 15
[56] Buchholz & Rosenthal 2002, 305; 306
[57] Holliday, Schmidheiny & Watts 2002, 105
[58] Buchholz & Rosenthal 2002, 306; 307

financial implications of the action taken by the firm. Accordingly, CSR can be viewed as: corporate projects within society that hold some form of return for the company. That is not the traditional view of CSR, though. The more traditional view of CSR is that of a purely charitable action. Quite simply, giving to those in need. A strong ethical case for such acts of charity can of course be made, but it might not translate fully into the reality of the current corporate environment.

In the United States, corporate giving as a percentage of profits, has dropped by 50% over the last fifteen years, largely due to investors' demands for increased short-term profitability, coupled with stricter regulations and other market pressures.[59] A decline in the traditional charity approach to CSR does, of course, not mean that companies are turning their backs on the community. Instead strategic philanthropy has come to the fore, a general term that includes concepts such as cause related marketing,[60] which will be discussed in Chapter Three. The general line of thought is that companies can benefit society on a social level by means of slight adaptations to normal corporate practises. Typical of this approach would be projects, such as, the provision of affordable cellular phones to communities lacking fixed line infrastructure. Finding ways of entering such markets, not only provides the company with an increased consumer base, but it also improves the quality of life of affected individuals. Thus, the company, by means of a profitable endeavour, is serving society.[61] The central point here, is that CSR is not limited to either approach but rather encompasses both.

A company can therefore also peruse both avenues, donating money to worthy causes and launching profitable endeavours to serve disadvantaged sectors of the community. In countries such as South Africa, the future development of the economy can, to the advantage of all, be positively influenced by corporate activity. Ideally suited to this end, are partnerships between the private and public sectors, as advocated by the likes of Nelson Mandela.[62] The twofold grounding assumption of this is a primary obligation towards

[59] Porter & Kramer 2002, 57
[60] It should be understood that sincerity on the part of the company is a necessity and that purely cosmetic attempts at improving the company's image are not what is meant by cause related marketing. Such campaigns also have the very real risk of backfiring and causing the company's image considerable harm. Rockey 2002,116
[61] Prahalad & Hammond 2002, 48 – 50
[62] Khodoga 2002, 11

society and the secondary incentive of financial gain. In this case, gain is materialised in a multitude of forms, ranging from an expanded customer base to a general economic stability, which in turn encourages foreign direct investment. The possibility of a return on CSR projects has, in recent years, also started to manifest in the stock market. Which means that this new manifestation provides stockholders with direct monetary benefit, yet again undermining Friedman's argument.

As has been shown already, and will be expanded upon throughout Chapter Three, public perception has a definite influence on corporate strategy and nowhere is this more abundantly clear than in the field of ethically motivated investment (now generally referred to as socially responsible investment). The move towards socially responsible investment can primarily be traced back to the investment practises of churches from the 1920s onward. The churches avoided stocks in areas such as tobacco, gambling, arms manufacture and alcohol. Avoiding certain stocks in this way and choosing others on moral grounds eventually caught on with the general public investor. Public opinion on a company's CSR performance can now directly influence stock prices through indices such as the Dow Jones Sustainability Index (DJSI). The DJSI[63] rates international companies on their sustainability performance and was followed in 2001 by the Dow Jones Stoxx Sustainability Index, which tracks European sustainability investments. Acceptance on to the DJSI is judged on three principles, namely, economic, social and environmental performance.[64] Such indices allow investors to literally invest in ethically correct and profitable actions on the part of companies. Socially responsible investment (SRI) also brings with it one more trait that sets it apart from 'normal' investing, increased stockholder engagement. Between 1997 and 2001 stockholders in SRI funds have brought direct pressure to bear at the AGMs of BP, Shell and Rio Tinto.[65] Furthermore, for the period of January 1997 to April 2002, companies on the DJSI significantly outperformed those on the general index.[66] In addition, SRI is doubling in size every three years and is currently worth more than 5.3 billion Euros.[67]

[63] The DJSI was established in 1999 by Dow Jones & Company and Zurich based SAM (Sustainability Asset Management).
[64] Holliday, Schmidheiny & Watts 2002, 37; 38
[65] Sadler 2002, 58
[66] Holliday, Schmidheiny & Watts 2002, 38
[67] Bloch 2001, 6

The rise of SRI has brought new pressure to bear on listed companies, guiding them towards greater ethicality. This means that stockholders and not just stakeholders, now require companies to engage in activities such as CSR programmes. A situation which directly undermines the foundational assumptions of Friedman's argument.

2.6) Conclusion.

Bringing CSR and business ethics in general, into a positive relationship with the goal of profit maximisation is not equally well received by all. Arguments against this standpoint are, however, not limited to positions which oppose CSR in a fashion similar to that of Milton Friedman. In the proposed Corporate Democracy Act we saw a pro-CSR position that sought to change the very nature of the corporate entity. Other theories that also advocate increased CSR through major changes in the nature of corporate structure, even go as far as totally doing away with the profit motive for corporate conduct and existence. This, in turn, means that the responsibility of managers towards stockholders, to increase profits, is undermined. The net result of which is that the future existence of the stock market comes under serious threat, as corporate stock would no longer be a sound investment. Furthermore, stockholders would no longer be in a position to replace a CEO or other officials who failed them, as those individuals would not be obliged to increase profits for stockholders.[68]

Instead, CSR within a contemporary capitalist dispensation appears to provide the best results, both for the recipients and the companies that run such programmes. This view is increasingly making its way into governmental thinking and planning. A primary example being the New Partnership for Africa's Development (NEPAD). NEPAD aims to develop Africa into a competitive and stable economic region. Central to NEPAD's approach to problem resolution is a constructive partnership between corporations and government, aimed at addressing social and economic dilemmas.[69] The perceived value of social investment is thus, on the increase. The following Chinese proverb encapsulates the very heart of the reasoning behind social investment: "*If you want one year of prosperity, grow*

[68] Sheikh 1996, 21
[69] Rockey 2002, 5

grain. If you want ten years of prosperity, grow trees. If you want one hundred years of prosperity, grow people."[70]

From the discussion presented thus far, we can make the following conclusions pertaining to the central question of this thesis. Companies are increasingly required, due to external factors such as legislation and consumer demand, to act in an ethically correct manner. This is a position which the 'old company' paradigm is not equipped to deal with, hence, a move away from said paradigm has begun. Companies are, nevertheless, not disadvantaged by these demands, or the change that meeting them requires, as this new situation also brings with it new possibilities for profitability.

In the final analysis though, there is one motivator of corporate action that rivals even the direct profit motive in its potential as a tool for the advancement of corporate ethicality. That factor is public perception. In the following chapter we will examine public perception, paying specific attention to the manner in which companies attempt to influence it.

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[70] Tjosvold & Tjosvold 1995, 115

Case study:
ABI*

Background.

In 1994 South Africa experienced unprecedented political changes, affecting every level of society. Along with South Africa's new government came new foreign investments, which in the case of Coca Cola bottler Amalgamated Bottling Industries (ABI), meant the arrival of a rival company, Pepsi. During the preceding decade Pepsi had almost no market presence in South Africa, but the political change created the climate for Pepsi's re-entry into the market. A move which could not have come at a worse time for ABI. The South African economy was in a lull, labour disputes had turned violent and the company was contemplating downsizing.

To address this situation, ABI brought in an American consultancy firm, Strategic Business Ethics Inc. which quickly launched an intensive investigation into ABI and its practises. What they found was an overly regulated corporate culture that alienated employees, directly resulting in hostile wage and other negotiations. In response, they formalised a far reaching overhaul of ABI's operations. Ethicality[71] was advanced on every level of the corporation and all structures and systems were amended, with direct employee input.

The results of this change were truly astounding. Wage negotiations were conducted on a basis of newfound understanding, which led to quick resolutions. During 1995 and '96 South Africa was hit by a number of national strikes, none of which affected ABI. Theft at ABI declined and productivity rose along with market share, to the point of Pepsi's withdrawal in 1997. During the same period ABI's share prise increased fivefold.

Today ABI is the largest Coca Cola bottler in South Africa, which is now Coca Cola's tenth largest market. Coca Cola sales in South Africa amounts to R4,8 billion, placing it

* This case study was compiled with information gained from:
http://www.symbol.com/africa/main_news/2003-05-07-amalgamated-beverag.html; www.sbe.us/ABI.pdf; www.abi.co.za/old/news.htm;
www.abi.co.za/ABI%202004%20Interim%20Results%20Media%20Statement.pdf;
www.petercheales.co.za/lookout/chapter11_content.htm; www.btimes.co.za/97/0202/comp/comp8.htm

[71] The measure to which ethics has been internalised.

above China and below the UK in sales. ABI is however not resting on its laurels. Recent programmes have included the introduction of handheld communications devices for employees involved in customer services, and involvement in a national charity initiative.

The ethically engineered revamp of the company, started nearly ten years ago, has continuously been re-interpreted and re-applied. Keeping the company ahead of its competitors.

Discussion.

The dramatic change that the company experienced once it started to engage stakeholders, in this case its own employees, made a lasting impression on the company, culminating in an internal re-launching of the ABI brand. The move was aimed at positively reinforcing company values amongst staff, coupled with the introduction of a company wide HIV/AIDS programme. What makes this so special, is that the HIV/AIDS programme did not stop at the distribution of information and contraceptives. Instead the company is offering free testing to all employees, and free anti-retroviral drugs to all those who test positive.

At the heart of the company's actions, lies the realisation that the company is inherently connected to its employees and their community. A view which one author aptly explained by stating that: "no business is an island".[72] CSR is thus seen as central to continued sustainability and profitability. The result of this approach to both CSR and business in general, speaks for itself. Besides for beating off Pepsi, ABI has consistently remained one of the top 40 listed companies in South Africa. The company has also extended its operations to the Comoros and Mayetta.

ABI's experience illustrates not only the potential financial benefits that increased corporate ethicality and CSR hold, but it also underscores R.C. Solomon's contention that business ethics is a company's first line of defence.

[72] Donaldson 1992, 100

Chapter Three
In the public eye

3.1 Introduction.

In this, the second and last chapter of Part Two, the ways in which companies communicate with customers and society as a whole will be investigated. Thus the means of interaction, that is the interaction initiated by companies, will be studied. In terms of the central question of this thesis, these interactions represent one way for companies to deal with new pressures and requirements that the globalised business environment is bringing to bear on them. Furthermore, this chapter continues the discussion of external issues, related to corporate ethics and ethicality.[1]

Traditionally such communications were restricted to different forms of marketing and to public relations. With the increased awareness by companies of CSR issues, the various avenues of communication have also been affected. Accordingly, we have seen not only the introduction of new forms of marketing, such as cause related marketing but also an expansion of corporate reporting to include social reporting. Social reporting will receive the majority of this chapter's attention as it is the youngest form of communication between companies and stakeholders. Before the subject can be introduced, more traditional aspects have to be investigated, beginning with marketing.

In the following discussion we will look at a number of prominent ways in which companies inform the public of their activities and products. Under this broad heading resides traditional approaches such as advertising and also some newer techniques such as cause related marketing. After discussing concepts and principles, we will then move on to examine an actual corporate social report, namely, the British American Tobacco South Africa 2003 social report. The choice for this specific report was made for the following two reasons. Firstly, because of legislation restricting advertisements by tobacco companies, the company has fewer avenues of communication available and must therefore use the remaining ones to optimal effect.

[1] External issues can relate to ethicality, since the motivators for increased ethicality are often located outside of the company.

Secondly, the nature of the company's products make it a challenging example. One could easily ask whether or not a company selling potentially harmful[2] products can be socially responsible. The question is, however, fallacious in nature, because it directly equates the moral character of the company as a whole to that of the company's products. Producing potentially harmful products does not in itself make the company, and therefore its employees, immoral in character. With this understanding it is hoped that the aforementioned example can be examined in a non-partisan fashion.

3.2) Image and perception.

3.2.1) First principles.

Marketing, public relations and other forms of communication are all aspects of business practice that start at an internal planning level, but take place externally, thus they form a bridge between internal and external aspects of business ethics. In the globalised economy, marketing has also come under pressure, most notably from the global rise of individuality. Gone are the days of blindly mass producing goods, the emphasis now falls on customisation. Thus, production aims have shifted from churning out millions of identical products, to efficiently providing individually tailored goods.[3] Ford and GM's plans to produce a 'world car' which would be globally mass-produced and identical, serve as a good example of this, as these plans were never realised and most likely never will be.[4]

As customer needs and other market forces change, companies have to respond in order to survive, such changes are clearly visible in advertisements. According to Norman Douglas, one can tell the ideals of a nation through its advertisements.[5] A short study of South African advertisements over the last decade would most likely confirm this sentiment, but advertisements are not the only way in which companies communicate with society. In this chapter various forms of communication will be examined, with special attention being paid to corporate social reporting. The history

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[2] The term 'potentially harmful' can be used to refer not only to tobacco but also to other products such as weapons, fossil fuels, nuclear products, alcohol, explosives, chemical compounds, construction materials etc. Al these products, though different on a number of counts, are in themselves not necessarily harmful but become so through human use or misuse.
[3] Fischer 2000, 227
[4] Helgesen 1995, 14
[5] Harwood 1996, v

of corporate social reporting is closely linked to that of CSR and therefore instances of such reporting are on the rise. Social reporting also presents companies with the opportunity to gain media exposure, which they might not otherwise have had, a good example of this is tobacco companies who are prohibited from advertising in many countries. Before the forms of communication and their content can be viewed, we must consider what drives companies to communicate with the public in the first place. This primary motivator is the corporate brand.

The corporate brand is inescapably linked to a company's products and as such is essential for sales. Just consider the following: it costs more to attract a new customer than it does to keep an old one and its easier to increase customer spending than it is to increase your customer base.[6] Since branding is a main topic of concern in corporate communication, it will be introduced here as a foundational discussion for the rest of the chapter.

3.2.2) Branding.

A strong, well-known and respected brand is most definitely vital to a company's success, and if managed correctly it can even be a main factor for such success. A strong brand also aids companies in building and maintaining relationships with their customers.[7] But what is a brand? The traditional answer would be that the term brand refers to a company's name and associated statements. For example Intel, Reebok or the association of the word 'real' to the Coca-Cola brand. Since consumers are increasingly better informed on issues pertaining to corporate conduct, through the mass media and the Internet, new factors have become associated with a company's brand identity. Therefore one can conclude that to sustain or form a strong brand, companies should not only concentrate on traditional branding issues, but also on their ethical identities.

Before we look at that, though, the nature of traditional branding issues should be clarified. Firstly, a company should have a strong brand name. To facilitate branding objectives the company name should be memorable, easily pronounced, clearly associated with the company's products and appropriately functional for both future

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[6] Bloch 2001, 4

[7] Holliday, Schmidheiny & Watts 2002, 181

expansion and multinational use. A near perfect example of this is an American handyman service called Rent-a-husband. The brand name was directly responsible for the company getting international media attention. As a result, the small part-time operation has grown into a prospering new franchise business.[8] Having a brand name that lives up to all the traditional requirements is, nevertheless, just a first step.

Branding under the 'old company' paradigm, was little more than a reflection of a company's success in supplying customers with certain goods or services. To this primary reputation certain cosmetic aspects were added, such as the association of a company's products with a specific way of life. Now, however, with the decay of the 'old company,' corporate brands have increasingly become associated with CSR activities and other ethical issues. European statistics clearly show this trend, with 70% of consumers viewing a company's ethical reputation as an important factor when making a purchase, while 40% have also bought a product or service because of the associated company's good CSR track record.[9]

With the arrival of the Internet and the pervasive nature of the mass media, consumers now have the ability to acquire practically any information about corporate products, services, activities or even the personal histories of senior managers. This, in turn, means that the corporate brand is now more vulnerable than ever before. So, for example, the Dutch consumer organisation (Consumentenbond) proposed making detailed background and manufacturing information concerning consumables available online.[10]

A number of studies, spanning nearly thirty years, have found that a company which dominates its market, such as Coca-Cola in South Africa, is in fact still vulnerable to competitors. This vulnerability affects areas such as pricing and services provision, but it does not extend to branding. Thus, a firm may remain dominant because customers know and trust it, even if competitors are undercutting its prices.[11]
One can therefore conclude that a company's brand is an extremely important asset, the value of which can be directly influenced by the firm's ethical history. Of central

[8] Carter 1999, 37; 40
[9] Bloch 2001, 5
[10] Bloch 2001, 6
[11] Shamsie 2003, 200

importance in this chapter are the ways in which companies communicate with customers and society at large, with the corporate brand being affected as a result.

In most instances companies are free to report, advertise and market as they wish, within the bounds of the law. International law concerning reporting on ethical issues is changing, though, and in this regard French law has required listed companies to account for their social and environmental impact since 2001.[12] In South Africa the importance of such extended reporting practices has also come to the fore, most notably, through the efforts of the King commission on corporate governance. The 2002 King report makes the following point concerning social and environmental reporting: "*There is no doubt, ... that these so-called non-financial issues have significant financial implications for a company. ... There is growing pressure from society on companies to acknowledge their duty to act as responsible corporate citizens.*"[13]

From the preceding discussion, one can deduce that the corporate brand is not only of central importance to a company's success, but the brand can also be influenced, both positively and negatively, by the public perception of a company's CSR activities. Given that this situation is fast becoming the new status quo, it is of the utmost importance for companies to invest in their future brand strength by adding social value to their brands.[14] CSR, as discussed previously, is central to such an investment, but informing customers of a company's social activities in an open and transparent manner is quite possibly just as important. For these reasons the following section will examine the prevalent manner in which companies provide such information, namely, marketing.

3.3) Marketing.

3.3.1) Persuasive marketing.

One of the biggest ethical problems marketers[15] are faced with is that of honesty, how to make their product look better than that of the competition, without lying about it.

[12] Wessels 2001, 14
[13] King 2002, 92; 99
[14] Bloch 2001, 8
[15] Marketing is a broad field encompassing retailing, advertising, promotions, etc. Discussing each area individually would take far too long, therefore marketing as a whole will be examined.

The two possible extremes in this case are: lying to make your product appear better than it is, or admitting that your product does not really differ from that of your competition. The virtue ethical solution to this problem would be to find a mean between the two extremes.[16] Thus, the goal of advertising is one of persuasion, but persuasion in itself does not necessarily imply any level of dishonesty, as is apparent from the following definition: "*Persuasion is human communication designed to influence the autonomous judgements and actions of others. Persuasion is a form of attempted influence in the sense that it seeks to alter the way others think, feel, or act but it differs from other forms of influence. It is not the iron hand of torture, the stick-up, or other such forms of coercion.*"[17] Persuasion by this definition is not presented to have any intrinsic ethical character. Instead the ethical nature of persuasion depends on the techniques used in a specific case.

Marketing, as the first corporate communication tool which will be examined here, is a prime example of persuasive communication. The most common view of marketing ethics is a normative one, inquiring how marketers ought to act. To this common normative conception, a meta-ethical level can be added.[18] This discussion will, however, remain at the normative level, as an extended meta-ethical inquiry would fall outside the scope of that which is being investigated here. Firstly, we will attempt to gain some historical perspective on the changing face of marketing ethics by considering the following list of issues which influence marketing decisions, as presented in 1967:[19]

1. *Personal conscience, moulded and formed by the ethical traditions of our society ...*
2. *The law and its corollary – an articulated corporate philosophy and explicit statements of policy.*
3. *Organisation structure and procedures that ensure the interjection of the ethical component into decision making through a system of checks and balances.*
4. *The marketplace, which in the terms of Adam Smith exerts its own ethic on buyer and seller alike.*

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[16] Solomon 2002, 34
[17] Simons, Morreale & Gronbeck 2001, 7
[18] Simons, Morreale & Gronbeck 2001, 179
[19] Clasen 1967 as quoted in Kidd 1976, 66

5. *Professional knowledge – the business and technical expertise which allows one to know what is good for someone else, even when the other is unaware of the factors and ethics involved.*
6. *Consumer want and acceptance; full, free, and open communication between buyer and seller, which in itself represents a kind of ethic.*

Points one, two and six seem to be acceptable and even forward thinking when one considers that the source dates to 1967, but that does not prove to be the situation with points four and five. Number three, on the other hand, presents the reader with an interesting dilemma. One would assume that the formal introduction of procedures and structures that would ensure the ethical quality of advertisements, is a positive and sufficiently conscientious step. Indeed it would have been, had it not been for the statement; "*interjecting the ethical component into decision making*" which undermines the ethical validity of number three. If ethical considerations have to be artificially injected into corporate decision making processes, it implies that such processes normally occur without any ethical thought. As we saw in Chapter Two, such a situation could threaten the very existence of a company. Making decisions ethically sound as a secondary process, is also much less desirable than just making ethically correct decisions in the first place. Typical of this approach to ethics as a secondary issue, is the checklist. Checklists provide the user with a number of directives, which should be adhered to in the hope of ensuring a specific outcome, but in reality, no checklist can cover every possibility and inclusion would do little to change an ethically negative corporate culture.[20]

Number four refers to the market place exerting its own *ethic* on both buyer and seller. It is, however, debateable whether or not supply and demand, or any other market force (when seen in isolation from the rest of human society), can dictate ethical acceptability. Ethical acceptability is, of course, not fixed, but that does not mean that ethical change in advertising standards can be independently influenced by market forces. Instead, the driving forces behind a change in norms would be found across society. Furthermore, ascribing to Adam Smith this limited position is also not entirely correct, as was shown in Chapter One.

[20] Checklists are also discussed in Chapters Four, Five and Six.

Professional knowledge, which is the central concept in point five, brings to the discussion the issue of organisational learning.[21] The term professional knowledge, implies that the person acquired said knowledge through his or her occupational activities. This knowledge is therefore also of a business or technical nature. Having such professional knowledge does imply a greater level of competency at related practices, such as the compiling of a corporate presentation. In point number five, however, the conclusion reached extends to knowing what is best for others, ethically speaking, even if they are not aware of it. The author (Clasen) thus takes a paternalistic view, which amounts to the senior person knowing best on all matters. In addition, concluding that professional knowledge entails ethical knowledge, in a context where ethical concerns are still artificially interjected on a secondary level, as shown in number three, does not follow. Contemporary business practices also differ vastly from the position taken here, for, as we shall see in Section 3.4, nearly 80% of successful new corporate products or services are derived from customer suggestions.

Point number six presents the reader with a final but significant step in the right direction. Open and free communication between buyer and seller holds two important ethical implications. Firstly, it means that buyer and seller can communicate about more than just price, consequently, other issues such as environmental concerns can be discussed. Secondly, broadening the scope of such communication would necessitate the addition of knowledgeable or affected parties, thus moving from customer engagement to stakeholder engagement.

In 1995 advertising giant, Ogilvy and Mather, stated that marketing can be used as an effective tool to steer consumption onto a socially and environmentally sustainable tract.[22] This represents a major break with the sentiments expressed by Clasen. In Clasen's six points, ethics functioned as a secondary concern, an obstacle to be cleared after the main decisions had been made. While the Ogilvy and Mather statement places ethical concerns in control of marketing. This is, to a large extent, due to a prominent change in the power of advertising, which may not only sell products but

[21] Organisational learning will be discussed in more detail in Chapter Five.
[22] Holliday, Schmidheiny & Watts 2002, 181

even lifestyles.[23] As a result, marketing can, in principle at least, be used as a tool for social good.

However, in practice marketing, and especially advertising, is still seen as a morally questionable activity which utilises temptation to motivate sales.[24] The general consensus is that marketing conceals the truth by presenting a false or exaggerated image to customers.[25] If persuasion in itself is not ethically laden, this negative perception of marketing must be attributable to the persuasive techniques used.[26] That does indeed seem to be the case, as some of the most prevalent marketing techniques include ambiguous statements, exaggerations, psychological appeals and advertisements aimed at minors.[27] Complaining about the apparent status quo is not the intention here, hence we will now turn to marketing techniques that actually rely on ethicality for their success.

3.3.2) Cause related marketing.

As consumer awareness increases in areas such as CSR, companies are not only presented with new challenges, but also with new opportunities. Cause Related Marketing (CRM) is one such opportunity. CRM allows companies to directly target ethically motivated consumers by connecting their products or services with a certain cause or charity. This approach has proven popular with a number of high profile international companies such as The Body Shop, BT and Ben&Jerry's.[28]

BT incorporated stakeholder issues directly into its corporate strategy and did so publicly.[29] While The Body Shop reinvests large sums of money, into the communities which supply its products.[30] Why did these companies incur the cost of launching CRM initiatives? The answer can be found in the following quote by Philip Kotler: "*Companies pay too much attention to the cost of doing something. They should worry more about the cost of not doing it.*"[31]

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[23] Holliday, Schmidheiny & Watts 2002, 181
[24] Harwood 1996, 377
[25] Shaw & Barry 2001, 506
[26] Brenkert 2002, 178
[27] Shaw & Barry 2001, 497 – 503
[28] Bloch 2001, 7
[29] www.btplc.com/Betterworld/Investors/CSRforinvestors.htm
[30] www.csreurope.org/news/_page1659.aspx
[31] Philip Kotler as quoted in Crainer 1996, 163

For all the possible good that CRM can do for both society and the involved firm, it does have one notable drawback. Since CRM ties specific issues to specific products when targeting a certain demographic, it is possible that companies will treat it as a niche project.[32] In which case the values central to the CRM project will not be absorbed into the rest of the company, as the company will not be truly socially responsible. Thus, CRM should form part of a solid CSR strategy and should not be a niche market ad-on.[33]

In addressing this very concern Mike Freedman, not to be confused with Milton Friedman, proposes the concept of deep branding. According to this principle, the true spirit and nature of a brand starts not with a branding concept, but within the company itself. Quite literally, the nature of a brand is determined by corporate culture and not the later additions of advertising agencies. Therefore, branding starts internally with the fostering of a socially responsible culture, which can then be projected outward.[34]

Cause related marketing clearly demonstrates the social good that can be achieved through marketing. Considering this, in conjunction with the preceding discussion concerning persuasion, two points become clear. Firstly, that marketing need not resort to dubious means to sell products or services and secondly, that the ethical nature of marketing activities can be objectively judged.[35] The net result being that marketing can be used to promote social good instead of blindly causing harm. This type of pre-emptive ethical action is indicative of a break with the 'old company' paradigm, as examined in Chapter One. Unfortunately the track record of marketing, over the last few decades has earned it a large number of detractors. With the old adage of 'sex sells' still largely being adhered to,[36] it is no wonder that feminist debate has a particular problem with marketing. It is to this issue which we will now turn our attention.

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[32] Such as a mining company conducting a public HIV/AIDS awareness campaign, but never addressing other issues such as the rehabilitation of old mine dumps.
[33] Bloch 2001, 7
[34] Rockey 2002, 121 – 123
[35] Holley 2001, 522
[36] It should, however, be noted that not all marketing professionals are in agreement on this. Many are troubled by the open exploitation of sexuality in the industry and may even welcome stronger regulation. This point was brought to the author's attention by Mr. Doug Maritz, MD of Zoom, a division of Ogilvy and Mather, South Africa.

3.3.3) Feminist issues in marketing.

Everyone has most definitely heard the motto: sex sells, but where does this sentiment leave gender issues? The following discussion will introduce a feminist perspective on marketing.

Naomi Wolf, an American feminist theorist, refers to the 1990s as the era of the 'genderquake.' According to her the very meaning of being a woman changed during this time.[37] This is a far-reaching and rather broad statement, but there is no denying the definite change in the roles of women, especially in the workplace. The matter discussed here centres around the portrayal and position of women in marketing.

An interesting situation is the position of the media in this debate. To a large extent the mass media in South Africa has taken on a type of watchdog role, *sniffing* out corruption and crime.[38] Conversely, the mass media has also been instrumental in expanding the boundaries of socially acceptable behaviour. This includes the rapid liberalising of sexual norms since the 1960s,[39] which brings us back to the adage that 'sex sells.' The mass media presents marketers with an amazingly efficient tool for spreading their message. A message which by and large seems, to fall outside the sphere of media scrutiny.

Why the link between sexuality and selling products would be problematic for feminist theorists is clear,[40] as per the discussion of feminism in Chapter One. A better question might be to ask if marketers are aware of such feminist concerns and if not, why?

A whole host of answers can be presented from a feminist perspective. Depending on which form of feminism one subscribes to, these answers range from militant to the mundane.[41] An image of a woman cooking pasta for her husband and sons who have just arrived home, may only be *intended* to promote the pasta. Feminist theory would

[37] Bryson 1999, 3
[38] King 2002, 149
[39] Bryson 1999, 173
[40] Especially with the typically subservient female role.
[41] Also discussed in Chapter One, Section 1.3.

conversely point out that the woman had to stay at home and literally work for the male members of the household without any remuneration. The most likely explanation however, for marketing campaigns that still adhere to a premise of masculine supremacy, could very well be simple ignorance. The marketer may not have *intended* any interpretation other than: the pasta is good. Differing interpretations may also baffle the marketer, the reason being the continued prevalence of the modernist premise that a single correct reading of any text is not only possible but probable. While postmodern techniques have a prominent position in feminist theory, a vastly different reading of the text (such as an advertisement) would most definitely be an unexpected occurrence for the advertiser, but not for the feminist theorist.[42] Consequently, marketers could argue that since their *intentions* have a lesser influence on the eventual reading of the text, they cannot be held responsible for the chauvinist implications seen by others. Whether or not such a defence is satisfactory, remains an open question.

Nevertheless, marketing messages both intended and otherwise, are not unredeemable from a feminist perspective. Marketing can in fact, lend a voice to feminist issues, most notably through messages written by women for a female audience. Approaching marketing issues from a feminine perspective, instead of injecting artificial sexual tension into an advertising campaign, can contribute to the campaign's success.[43]

As we have seen, the social value of marketing is not fixed and as such it can be a tool for positive social change. This point is all the more evident, given the fact that even feminism, with its traditional opposition to marketing practices, can mould marketing to its own needs.[44] The potential ways of applying marketing in such a fashion seems near endless.[45] There is, however, one inherent limitation in most forms of marketing, it is one way communication. One of the benefits of stakeholder engagement, on the other hand, is that it is two-way communication, which is why it is the next form of corporate communication which we will be viewing.

[42] Stern 2000, 57
[43] O'Donohoe 2000, 78; 79
[44] Scott 2000, 17
[45] The body of work which one could list in this regard is substantial and ranges from anti-abuse campaigns to ads portraying woman as successful business people.

3.4) Stakeholder engagement.

There are a host of different ways for companies to engage with their stakeholders,[46] unfortunately many people see public relations as the only way of doing so. If that is the case, the company runs the risk of losing ethical focus and reducing CSR to a public relations exercise. Which would in effect negate the true value of stakeholder engagement. Avenues of stakeholder engagement go beyond the traditional scope of public relations and varies according to company context and may include general face to face meetings or the use of focus groups.

The globalised market presents companies with both new challenges and opportunities. To meet these challenges and fully develop new opportunities, corporations have to adopt a broadened stakeholder concept.[47] Exemplifying this approach is the new practice of social reporting for which adequate stakeholder engagement is a prerequisite. In section 3.6 we will examine British American Tobacco South Africa's 2003 social report; of interest here is their stakeholder concept which includes the following parties:

1. Employees.
2. Tobacco industry interest groups.
3. Suppliers of goods and services.
4. Trade regulatory bodies.
5. Health authorities.
6. The civil health community.
7. Retailers and consumer health organisations.
8. Community and civic organisations.
9. Media.
10. Smokers.

British American Tobacco South Africa's list of stakeholders, with which they engaged, is all the more impressive if one considers that some of the stakeholders[48] are in fact opposed to the very existence of the tobacco industry. By actively engaging

[46] The concept of stakeholders was introduced and briefly discussed in Chapter One, Section 1.1.1.
[47] Hutton 1998, 315
[48] As identified by British American Tobacco South Africa.

such a wide variety of stakeholders, the company is adding immeasurable value to its social report. Engaging stakeholders with such diverse agendas could also be explained by reference to Philip Sadler's description of management "*as the function of balancing multiple goals*".[49]

Moreover, stakeholder engagement is not only of crucial importance to CSR and other ethical programmes or concerns, it is of equal importance to a company's core business. It would be inconceivable for a company to conduct its business without any idea of its customer's needs.[50] It is also no surprise that as much as 80% (in western countries) of successful new products and services are derived from customer ideas.[51] Which leads one to conclude that full and effective stakeholder engagement can make a substantial contribution to future business success.[52] To take full advantage of successful stakeholder engagement, companies have to move away from corporate strategy that is merely compliance driven, as per Friedman's position. Instead, broader stakeholder issues should also be considered[53] through unhindered stakeholder engagement.[54]

Ford motor company is well-known for its early innovations in the area of mass production by means of assembly lines. A system which is indicative of the 'old company' paradigm.[55] Consequently, it is interesting to see that Ford has adopted a position similar to that of British American Tobacco South Africa. Philip Sadler explains Ford's position in the following quote: "*Ford defines its key stakeholders as customers, employees, the local communities that host Ford facilities, business partners – such as suppliers and dealers – those who invest in the company and 'society', including governments and non-government organisations. The company states its belief that engaging in active dialogue with stakeholders creates value for itself and for society.*"[56]

[49] Sadler 2002,132
[50] The same logic extends to knowing what civil society would find permissible and impermissible.
[51] Bloch 2001, 4
[52] Tufano 1998, 175
[53] Buysse & Verbeke 2003, 453; 454
[54] Sadler 2002, 134
[55] This is not to say that a move away from said paradigm also implies the end of the assembly line.
[56] Sadler 2002, 134

It is therefore no surprise that terms such as 'dialogue' and 'community partnerships' have made their way into the corporate vocabulary. The potential benefits of stakeholder engagement are not just limited to product innovation, though. Companies are increasingly held accountable for all their activities, including those that are non-financial in nature, such as social and environmental impacts. Accountability in this regard has come to the fore in the form of social and environmental accounting. As we shall see, stakeholder engagement is crucial to these new accounting practices.

3.5) Social reporting.

3.5.1) An issue of standards.

In this section we will assess the practice of social reporting or accounting, with specific attention being paid to reporting standards, objectives and procedures. The discussion will provide a basis for evaluating an example of actual corporate reporting. To provide the reader with a comprehensive understanding of international social reporting standards would not be possible in the space available here. Instead, this section will aim to introduce the issues involved as well as giving the reader a general understanding of the core principles involved, in social reporting. Furthermore, the concepts of social reporting and environmental reporting are closely linked with many companies even producing one combined report, but in keeping with the focus of this thesis, social reporting will primarily be examined.

The value of social and environmental reporting or accounting lies not only in the information that it can provide to stakeholders and society as a whole, but it also provides companies with a golden opportunity to strengthen customer relations and inject new dynamism into their brands. Unfortunately, many companies do not see social and environmental reporting as essential. The 'Sociaal Economische Raad' (SER), which is the Dutch government's advisory body on social and economic affairs, found in a 2001 study, that even though more than half of all Dutch companies had some form of CSR activity, only 33% of all companies reported on such activities.[57] According to the SER, this does not in fact, make a case for greater government control as CSR programmes and measures are extremely context bound. Instead, the SER proposed that government should create corporate partnerships,

[57] Wijfels 2001, 17

demonstrate its own CSR programmes and act as a market stimulator and director.[58] In so doing the positions of both CSR and corporate reporting would be strengthened, as both are still relatively new business concepts.

The fact that social and environmental reporting is still in its infancy is clearly visible from the lack of standardisation in the field. Not only are there a number of different reporting standards, but there also seems to be no firm agreement on what exactly it is that should be reported on. This is evident from the number of different terms used to describe the practice, the most prominent of which are sustainability reporting, social reporting, and triple bottom-line reporting.[59] For the sake of clarity the term social reporting will be used here.

Terms such as triple bottom-line (which was first introduced by John Elkington)[60] are of course aimed at conveying the importance of social reporting, but its reference to traditional financial accounting belies the unique nature of social reporting. Traditional accounting operates on the premise that certain corporate activities are of importance to the bottom-line (profit and loss) and should be reported on. Social impact, for instance, is not one of these things and as such is not reported on in traditional audits.[61] Social and environmental accounting on the other hand, acknowledges that companies also have a social impact and this impact should be reported on.[62] Furthermore, a company's social and environmental impact can, in fact, influence the traditional bottom-line. This view is clearly based on the recognition of stakeholder concerns and also represents a move away from the 'old company' paradigm. The concept of corporate accountability, as discussed in Chapter One, already pointed out the necessity of social and environmental accounting or reporting. The more traditional view places the company in an isolated position, with no true obligations towards society, thus it corresponds to Milton Friedman's position. This does of course not mean that social accountability implies a reduction in the value of financial accounting. Instead, accounting practices should be extended to include social and environmental concerns.

[58] Wijfels 2001, 17
[59] Wessels 2001b, 12
[60] www.johnelkington.com
[61] Arguments contradicting this view and exposing the financial benefits of ethical activities were introduced in Chapters One and Two.
[62] Crowther 2000, 5

The scope of ethical reporting is also much larger than that of traditional accounting because of the extended environment which it has to contend with and the multitude of effects that corporate activities can have on this environment. Points one, two and three listed below, describe the corporate environment, whilst points four to eight give some of the potential effects that a company may have on its environment:

1. *The business environment in which the firm is operating.*
2. *The local societal environment in which the organisation is located.*
3. *The wider global environment.*
4. *The utilisation of natural resources as a part of its production processes.*
5. *The effects of competition between itself and other organisations in the same market.*
6. *The enrichment of a local community through the creation of employment opportunities.*
7. *Transformation of the landscape due to raw material extraction or waste product storage.*
8. *The distribution of wealth created within the firm to the owners of that firm (via dividends) and the workers of that firm (through wages) and the effect of this upon the welfare of individuals.*[63]

Thus, social and environmental accounting rests on a stakeholder approach which recognises, not only a firm's financial activities, but also its social and environmental impact. Unfortunately, the biggest potential challenge to ethical accounting is not opposition[64] to the concept, but rather the lack of standardised reporting practices. The international Standards Organisation (ISO) provides standards of practice and quality in many fields but has not yet ventured into the field of social accounting. It has, however, through the ISO 14001 and ISO 14031 standards, set some principles for environmental management. The two standards require a company to take actions such as the formulation of an environmental strategy and the publication of regular environmental reports. They also provide companies with advice on environmental performance evaluation, but the standards stop short of establishing a single standard

[63] Crowther 2000, 7

[64] Views opposed to corporate ethicality and accountability have already been discussed in Chapters One and Two and will thus not be examined here.

for environmental reports. Thus, data from different companies using these standards may still be incompatible, and therefore incomparable.[65]

Social reporting is confronted by a similar problem. Since social reporting is not legislated in most countries, companies are free to decide on their own standards and thus, comparing reports from different companies may prove difficult. To address the need for social reporting standards, the Institute of Social and Ethical Accountability (AccountAbility) have launched their AA1000 Series including the AA1000 Assurance standard.[66] Adherence to reporting standards such as those contained in the AA1000 Series, would not only make it possible for stakeholders to compare the CSR and other ethical activities of different companies, but it would also be instrumental in improving the credibility of corporate social reporting in the public eye.[67]

The final success of social and environmental accounting practices does not only lie with the utilisation and implementation of an appropriate accounting standard, it also depends on two more principles. Firstly, that the top management of the firm unwaveringly support the implementation of such a process, as it is doubtful if social and environmental accounting practices will amount to much, without full and sincere support from senior management. Secondly, the report should be compiled by a multidisciplinary team, including people from various fields and not just accountants. This is due to the nature of the report, which covers much more than just financial information.[68]

Reporting transparency is also not just concerned with the information contained in a report, but should also extend to the very standard used to compile the report. This will become increasingly important as the number of available social and environmental accounting standards increase. Besides for the ISO and AccountAbility standards listed above there are also a number of other regulatory initiatives which

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[65] Crowther 2000, 104

[66] AccountAbility (2003, 5) defines Assurance as follows: "*Assurance is an evaluation method that uses a specified set of principles and standards to assess the quality of a Reporting Organisation's subject matter, such as Reports, and the organisation's underlying systems, procedures and competencies that underpin its performance. Assurance includes the communication of the results of this evaluation to provide credibility to the subject matter for its users.*"

[67] AccountAbility 2003, 3

[68] Crowther 2000, 45

aim to formalise social and environmental reporting, such as the Social Accountability 8000 (SA 8000) standard,[69] and the Global Reporting Initiative's guidelines.[70]

For the sake of perspective, it should be noted that the problem of varying standards is not limited to social and environmental accounting. Traditional financial accounting is also faced with this problem, although such accounting practices are standardised on a national level, there are major international discrepancies. These differences can generally be attributed to varying legal and political systems. There has, however, been some progress towards formalising international accounting practices with, amongst other things, the formation of the International Accounting Standards Committee (IASC) in 1973.[71]

The lack of a standardised approach to corporate social reporting clearly presents both the reporting company and stakeholders with a number of problems. These problems are not insurmountable and the ultimate aim of correctly and fully reporting on a company's social impact is most definitely reachable.

3.5.2) Objectives.

The central aim of social and environmental accounting is to report on the effects that a company's actions have on society and the environment. Furthermore, the report or audit is aimed at an audience which is situated outside of the firm itself and which does not necessarily have a direct financial interest in the firm.[72]

According to the Global Reporting Initiative (GRI) a company's report should "*present a balanced and reasonable account of economic, environmental, and social performance, and the resulting contribution of the organisation to sustainable development*".[73] Compliance with these objectives will make it possible to compare reports both over time and between companies. Furthermore, stakeholder concerns

[69] Parmigiani 2001, 8. The SA 8000 standard is based in part on conventions of the ILO.
[70] Global Reporting Initiative 2002a, b & c.
[71] Ball 1998, 254; 258
[72] Crowther 2000, 26
[73] Global Reporting Initiative 2002c, 22

can be credibly addressed.[74] Using differing standards would have a negative impact on the credibility of the information contained within corporate reports.

The 2001 KPMG survey of sustainability reporting in South Africa identified, on a more specific level, a number of key subjects for companies to report on. These include ethics, fraud, the environment, health issues, HIV/AIDS, safety, employment equity, industrial relations, sustainability and empowerment.[75] In addition to addressing these and other issues, a reporting company should also keep in mind that their own workers are also stakeholders and should as such be reported to. Because employees stand within and not outside of the company, they should be kept in the information loop. In short, employees should be properly informed of issues such as company policy, even before the official report is released.[76]

The objectives of social reporting can hence be defined as: the provision of a comprehensive and standardised report on the reporting company's activities and the effects of these activities, without limiting the report to financial issues.

To meet the objectives, as set out, of a social report, it is necessary that the report be compiled in a standardised manner. The best way to accomplish this is through formalised procedures, which will be the next topic of discussion.

3.5.3) Assurance.

As stated earlier, it would not be possible to fully discuss a reporting standard in the space available here, but some attention must, none the less, be paid to the evaluation of corporate reports. Therefore some of the procedural requirements and base principles of the AA1000 Assurance standard will be considered here. This will only serve as a broad introduction to the topic, though.

In initiating a social or environmental audit it is necessary to have a clear understanding of the goals which one wishes to reach with the project. In setting up a

[74] Global Reporting Initiative 2002c, 22
[75] KPMG 2001, 16; 17
[76] Global Reporting Initiative 2002a, 8

social and environmental accounting procedure, the following principles could be considered in respect to the outcomes of the process:

- *Relevance – To meet this criterion the target audience must be considered when providing information to ensure that the appropriate information is being reported upon.*
- *Comprehensibility – This means that the target group must be able to interpret the information correctly and the information supplied must therefore be adapted to the needs of the audience.*
- *Verifiability – It must be possible to check the exactness and precision of the data.*
- *Completeness – Both positive and negative information must be included.*
- *Comparability – To be comparable the figures reported must be given in a consistent manner and reports must be made at regular intervals.*[77]

The AA1000 Assurance Standard, introduced earlier, operates on similar principles. With the exception that it is not in itself a reporting standard, instead it is a tool for evaluating completed reports. Accordingly, it represents a shortcut to the goal of determining what a finished social report should look like. The standard's central features are all geared towards providing both companies and their stakeholders with credible and verifiable reports. This is clearly visible from the AA1000 Assurance standard's key characteristics, which state that it:

- *Covers the full range of organisational performance. i.e. 'Sustainable Performance.'*
- *Focuses on the materiality of subject matter to Stakeholders, as well as its accuracy.*
- *Examines the completeness of an organisation's understanding of its own performance and impacts, and associated Stakeholder views.*
- *Assesses Reporting Organisations' responsiveness to Stakeholders, and in doing so interprets Reporting as part of an ongoing engagement with them.*
- *Provides a forward-looking approach that indicates how able an organisation is to carry out stated policies and goals, as well as to meet future standards and expectations.*

[77] Crowther 2000, 38

- *Establishes the basis for public Assurance statements that build the credibility of public sustainability Reports.*
- *Supports and integrates approaches and standards, including specific compatibility with the Global Reporting Initiative Sustainability Reporting Guidelines.*
- *Applies to different types and sizes of organisation and Assurance Providers from diverse geographical, cultural and social backgrounds.*
- *Requires disclosure by Assurance Providers covering their competencies and relationships with the Reporting Organisation (i.e. client).*[78]

Full disclosure of related information, is clearly a prerequisite for the reporting company to meet the requirements of the standard. This may be a counterintuitive undertaking for most companies, who are accustomed to keeping information out of the hands of their competitors, although this attitude is understandable to a certain degree. Take for example, Proctor & Gamble. Their competitors went as far as using photography, teenage spies and even a spy plane just to steal a recipe for making cookie dough.[79] Such occurrences notwithstanding, the information in a social report needs to be above board. To ensure that this is in fact the case, any Assurance process utilising the AA1000 Assurance Standard must be grounded on the following three principles; materiality, completeness and responsiveness.[80]

The principle of materiality states that the Assurance Provider[81] has to disclose whether or not the reporting company has provided stakeholders with enough information in the report to make informed judgements, decisions and actions. Thus, any information which would influence the actions or decisions of stakeholders, is considered to be material and as such should not be omitted from the report.

The completeness principle entails an assessment, by the Assurance Provider, of the degree to which the reporting organisation both understands and correctly identifies the material aspects of its report. The Assurance Provider should also give the

[78] AccountAbility 2003, 5; 6
[79] Shaw & Barry 2001, 369
[80] AccountAbility 2003, 13 – 18
[81] This would be an external party, such as a consultancy firm, which is contracted to assess the quality of a social report.

reporting company substantial feedback on the matter, which should include ways of addressing shortfalls in future reports.

The third and final principle is responsiveness. This principle pertains to the manner in which the reporting organisation has responded, in its report, to stakeholder concerns, policies and standards. Hence, the responsiveness principle necessitates feedback in the report from the reporting company on stakeholder issues.

The integration of standards between organisations such as AccountAbility and the Global Reporting Initiative (GRI) is of course, of the utmost importance. A divergence of standards would lead to different company reports being incompatible, which is clearly to the disadvantage of both stakeholders and reporting companies. Therefore compatibility should be a key feature of all social reporting or assurance standards and their constituent protocols and supplements. The GRI's Sustainability Reporting Guidelines, for instance, are supported by further documents such as the GRI's Child Labour Protocol and Financial Services Sector Supplement.[82]

3.5.4) Ethical evaluation.

Social reporting is a brilliant example of the new global economy presenting companies with both a challenge and an opportunity to excel. It is also quite clear that any company still clinging to the 'old company' paradigm would not be able to comply with the standards for social reporting. This is due to a qualitative difference in the understanding of a corporate entity's fundamental nature. From the 'old company' perspective, a company is seen as a money making endeavour which exists in separation from society and as such is only accountable to its owners. To effectively meet the requirements of social reporting, a company must concede that it is inherently bound to society and, as such, can also be held accountable to society[83] at large.

Acknowledging the bond between society and company also further implies the need to be aware of applicable notions and sentiments held by society. Which in turn,

[82] Global Reporting Initiative 2002a, 2002b and 2002c.

[83] Society in this respect can be as small as a local community or as large as the international community, depending on the company's circumstances.

means that stakeholder engagement becomes a necessity; a proposition which would be wholly alien to someone who still adheres to the myths discussed in Chapter One.

Probably the most striking example of companies leaving behind the constraints of the 'old company' paradigm is the recent social and ethical reporting by British American Tobacco. Given the nature of their product, one would expect great difficulty in compiling a social report. In reality, though, the company not only publishes a company wide social report, but national subsidiaries also publish their own. In the following section the main focus area will be the 2003 social report published by British American Tobacco South Africa.

3.6) Corporate reports.

3.6.1) Context and content.

Since South African law does not permit tobacco advertisements, company reports are one of the view avenues of public communication that remain open to the industry. There is, of course, no small amount of irony in the fact that a company producing a product which poses numerous health risks to its clients has to communicate with those very clients and society as a whole, by means of a social report. The very nature of such a report implies a measure of social responsibility, but as was established earlier, CSR does not begin or end with a company's products.

In a world where CSR is becoming increasingly more important, companies who sell potentially harmful products, such as fossil fuels, tobacco and weapons, are in a difficult position. How such companies deal with this situation is the central issue which will be addressed here by way of reference to the 2003 social report of British American Tobacco South Africa (henceforth BATSA).[84] Firstly, we will examine the context within which the report functions by examining both the title of the report and preliminary statements made in the introduction, which sets the stage for the rest of the report. After establishing the context, the contents of the report itself will be evaluated by means of reference to the AA1000 Assurance standard.

[84] Du Toit 2003a & Du Toit 2003b. All further information in this section pertaining to BATSA was derived from Du Toit 2003a.

In 1978 Mobil Corporation released an advertisement addressing the pro-CSR position held by those it referred to as 'liberals.' In it the 'liberal' position is made out as hostile to the free market economy and unfair in its expectations of business, as businesses already pay taxes which government can use to fund social programs.[85] In Chapters One and Two, arguments such as these were shown to be false and in the case study presented at the end of this chapter, we will see a company that chose a radically different route. With social and environmental reporting also on the rise and even becoming mandatory in some countries, a position such as that of Mobil in 1978 has become untenable. It is therefore no surprise that even companies who produce potentially harmful products have started to release social and environmental reports. The question is, just how much have corporate attitudes changed over the last three decades?

BATSA's 2003 social report is quite insightful as far as answering the previous question is concerned. The report, subtitled *Seeking solutions through dialogue*, opens with the following quote: "*The tobacco industry represents two sides of a coin: it generates R6 billion in government taxes and directly sustains about 53 000 jobs. But smoking is a cause of disease and can be difficult to quit.*"[86] As with the Mobile statement there is still a reference to taxes but its significance has totally changed. Taxes are no longer presented as an excuse for lacking CSR, instead taxes and jobs are used as primary indicators of the company and industry's social value. BATSA, on its own also spent a further R8 524 418, 00 on 'social investments' during 2002. This social expenditure, coupled with the opening statement, shows that BATSA acknowledges its connection with and obligation towards society. Using the biggest criticism against your firm as the opening quote for its social report, also has a definite disarming effect.

Other than the explicit differences between the Mobil statement and the BATSA quote (made by Dave Crow, MD of BATSA), there is also a distinct difference in attitude. The Mobile statement is an attack on opposition and is condescending in nature, while the BATSA quote serves to open dialogue. This is accomplished by

[85] Simons, Morreale & Gronbeck 2001, 232
[86] Du Toit 2003a, 4. Both this opening quote and the closing quote, presented on the first and last pages of the report respectively, were taken from the introduction by David Crow, MD of BATSA.

openly voicing the concerns which may be held by others and doing so under the heading of 'seeking solutions through dialogue'. Clever intellectual footwork does, however, not equate to a justification for selling potentially harmful products. Having said this, though, one does get the impression that the BATSA social report is much more than just an intellectual exercise. Instead, the AccountAbility AA1000 standard was followed to compile a true social report, which not only brings issues forward for discussion, but also follows up on decisions that were made. This is clearly visible from the process of stakeholder engagement utilised to compile the report. Not only were a diverse group of stakeholders invited to take part, but the report also gives feedback on which stakeholders responded and in what manner.

The report ends with yet another quote which reaffirms the goals set in the introduction: "*We do not ask that you approve of tobacco or smoking, we simply ask that you tell us what you expect of us. We are open to listening and reviewing our actions.*"[87] A discussion of this quote will follow later, for now, though, the central factor is that dialogue and interaction are yet again lauded.

Thus the context or framing of the report is one of open dialogue with direct feedback on stakeholder issues. A position which is clearly in line with the reporting and assurance standards discussed earlier. Next we will see how well the contents of the report measures up to these standards.

3.6.2) Evaluation.

In evaluating a social report there are a number of different routes one could conceivably take. It would, for instance, be possible to compare a report with a preceding one from the same company or with reports from other companies in the same industry. In this case, though, the best instruments for evaluation are most likely both the context of the report and the AA1000 Assurance standard. Using these two instruments to evaluate the report, the focus will inherently be on broader principles instead of more specific data. If, however, applicable data is not supplied in an appropriate manner it will constitute a divergence from one or more of the principles, such as materiality. If it is found that the report does adhere to a certain principle, it

[87] Du Toit 2003a, 146

implies that the associated data and presentation is sufficient to satisfy the principle. Working on this basis is considerably more efficient, since it does not require the discussion of all the material presented in the report.

The difference in attitude between the 2003 BATSA social report and the 1978 statement by Mobil is striking, to say the least. The contextual principles of open dialogue and feedback are integrated into every aspect of BATSA's social report, with stakeholder responses highlighted in every section. This general methodology also extends to the report's opening and closing quotes, as we have already seen.

Thus, as far as the context of the report is concerned, one would be hard pressed to find instances of deviation. The context itself might however be questioned by means of reference to the closing quote.[88] The language use, and this is the case in the entire introduction, has an air of humility to it, which conveys sincerity. Asking for stakeholder input without expecting stakeholders to accept tobacco or smoking, allows free communication. Unfortunately it also means the stakeholders cannot directly criticise the company's products, or even its existence, since these topics are closed to discussion by the quote. Stakeholders are, as a consequence, only in a position to provide input which will enhance the company's social position, without threatening its existence. By enhancing the company's social position and social value, one is in effect also increasing the firms 'life expectancy'. Participating stakeholders are therefore effectively helping to sustain the company. Which may go some way to explaining the absence at stakeholder engagement sessions of certain invited groups, most notably from the civil health community.

As for the AA1000 Assurance standard, BATSA appears to present the reader with a model report. For the sake of expedience, the focus here will be restricted to the principles of materiality, completeness and responsiveness. The issue of materiality is thoroughly addressed within the report. All aspects of the company's social and environmental impacts are addressed with clear reference to any changes in status. This includes detailed breakdowns of aspects such as the company's social

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[88] *"We do not ask that you approve of tobacco or smoking, we simply ask that you tell us what you expect of us."*

expenditures. Even employee opinion poles are listed, usually separated between white and blue collar workers or between black and white employees. This also underlines the report's commitment to the completeness principle. Not only were a large number of stakeholder concerns identified, but they were reported on in detail. These include black economic empowerment (BEE), student bursaries, public information programmes and even requiring that suppliers adhere to CSR standards. Through the process of detailed reporting the company clearly shows its responsiveness to stakeholder issues. For example, a consumer information campaign using booklets was, after stakeholder consultation, amended to distribute the same information by means of the magazines *Drum*, *You* and *Huisgenoot*.

As far as formal compliance with both AccountAbility's standards and the GRI's guidelines is concerned, BATSA has an exemplary performance. In many instances the report even includes information which companies would traditionally have tried to suppress. Such as proposed reforms which the company could not carry through on, including the reasons for the failure.

Unfortunately, this effort by the company remains overshadowed by the nature of its product. It is therefore an open and unanswered question whether or not there are any grounds, even R6 billion in taxes and 53 000 jobs, which can truly legitimise the tobacco industry. Conversely, the company when seen in isolation from its product, does conduct itself in a socially responsible manner. A case in point would be its sizable social contributions, ranging from BEE to bursaries. Although even those contributions can be questioned to a certain extent. Of the more than R8 million the company spent on such projects in the last year, two million was spent on tobacco research. Even if such research is aimed at making their products safer, it is questionable whether or not this is truly a social expenditure, as opposed to, for instance, an HIV/AIDS campaign.

In summation, one has to admit that BATSA, their product notwithstanding, takes CSR seriously. With the company's avenues of communication limited, they have utilised social reporting to good effect without degrading it to a public relations exercise. In the following short discussion we will look at an example of non-reporting communication and why it does not measure up.

3.7) Other non-reporting communications.

Corporate communications that touch on CSR issues do not necessarily have to be social reports, they can, for example, be press releases. The example which will be viewed here is somewhere in-between a press release and an internal memo and as such, it does not have to adhere to any of the reporting standards set thus far. The intent with such statements also differs from that of social reports.

The Microsoft document discussed here, is entitled Microsoft standards of business conduct.[89] The document which was initially, and in a different form, circulated amongst employees, was later published on Microsoft's website. To gain an understanding of the document's general content, one need only look at the section headings: Letter from Steven A. Ballmer, Chief Executive Officer; Microsoft Values; Compliance with the Standards of Business Conduct; Microsoft's Standards of Business Conduct; Microsoft's Business Conduct and Compliance Program; Our Responsibilities.

At a time when CSR issues are increasingly relevant and with major corporations losing much of their untouchable status, it is no surprise that a company such as Microsoft would address these issues. The document is even subtitled '*Great people with Great values.*' This all bodes very well for the document, that is until one reads the disclaimer printed as a footnote on every page: "*This document is for informational purposes only. MICROSOFT MAKES NO WARRANTIES, EXPRESS OR IMPLIED, IN THIS DOCUMENT.*" Why would the company brand every page of their document with this disclaimer, half of it printed in bold type? One is left wondering what the point is, if the document has no legal worth and why the company would make that so abundantly clear.

The document's content generally seems to be of an ethically conscientious nature, all of which is however undone by the disclaimer. A social report on the other hand has to be a truthful and verifiable account, presented in a standardised manner. This difference in value is exactly why social reports are so valuable. If such statements are

[89] www.microsoft.com

not true social reports, they run the risk of being nothing more than a public relations exercise and in this instance it most likely is a failed one at that.

To recap, the failure of this statement by Microsoft, is primarily due to two factors. Firstly it is not an official social report, nor for that matter any form of regulated communication, thus, it is difficult to compare the statement with any other documents. Secondly, the disclaimer at the bottom of the statement places a serious question mark behind the author's sincerity.[90]

3.8) Conclusion and summation.

Chapter Three has examined methods of communication between companies and stakeholders, specifically communication that was initiated by the companies. Company initiated communication, represents one of the most prevalent means by which companies attempt to address the new demands that are being placed on them, which explains its importance to this study. It assists in answering the central question of this thesis, as such communication not only exemplifies the company's attempts to deal with external situations, but also provides another example of the 'new company' paradigm's advantages over the 'old company'.

Through ethically attuned communication, companies cannot only positively affect their business interests, they can also have a positive effect on society. Thus, a win-win situation.

Of all the avenues of communication between companies and the public, marketing, especially through advertising, has traditionally been the most controversial. In this chapter, we have indicated that social reporting also presents the reader with a number of controversial issues. Most notable of these being the ethical reporting of a company which sells ethically questionable products. Connected to this issue is the question of whether or not stakeholders should assist such companies.

What the BATSA report has shown beyond any doubt, is that the days of the 'old company' paradigm are numbered. CSR concerns have had a real impact on corporate

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[90] In a recent case copyright, Microsoft admitted that its legal department has the tendency to go to far. (www.cnn.com)

activity, with its sphere of influence reaching beyond the purely cosmetic. The true test of corporate change in this regard, however, is not just the information that companies are presenting to the public, but also how they operate internally. Part Three of this thesis will, therefore, focus on internal aspects of business ethics.

A shift in focus, from external issues and motivators to internal changes and strategies, will not only assist in understanding the move away from the 'old company' paradigm, but it will also get at the heart of the emerging 'new company'. Part Three will, therefore, enhance one's ability to fully answer the central question of this thesis, as presented in Chapter One.

Case study:
Ben&Jerry's*

Background.

In 1978, Jerry Greenfield and Ben Cohen started their small home made ice-cream business with an investment of $12 000. By 1984 the company had a turnover of $4 million which over the next twenty five years grew to more than $273 million. In 2000 the company was bought by Unilever, but instead of becoming just another division of Unilever, a brand new type of agreement was reached. The associated press release read as follows: "... *a unique agreement enabling Ben&Jerry's to join forces with Unilever to create an even more dynamic, socially positive ice-cream business with a much more global reach. Under the terms of the agreement, Ben&Jerry's will operate separately from Unilever's current U.S. ice-cream business, with an independent Board of Directors to provide leadership for Ben&Jerry's social mission and brand integrity.*"[91] The motivation behind this new setup is inherently tied to the nature and success of Ben&Jerry's.

Since the company's founding, it has had a far closer relationship with its stakeholders than what was the norm. The company regularly brings out new flavours of ice-cream or even totally new products, on customer requests and such products are also named in accordance with stakeholder issues. Two prime, and vastly different, examples of this are the Cherry Garcia ice-cream flavour which is named after the Grateful Dead guitarist Jerry Garcia; and Economic Crunch ice-cream which was served for free on Wall Street following the 1987 stock market crash. Furthermore, in 1985 the Ben&Jerry's Foundation was established to manage the company's social programmes. The foundation receives 7,5% of Ben&Jerry's annual pre-tax profits. In 1988 the company also helped to start the 1% for peace initiative, which aimed to redirect 1% of the U.S. defence budget to peace projects. Since the end of the cold war, the initiative has been greatly expanded and is now known as Business for Social

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* This case study was compiled with information gained from: Wessels 2001a, 9 – 11; www.benjerry.com; www.csrwire.com and www.onesweetwhirled.org

[91] www.benjerry.com

Responsibility. In keeping with the initiative's goals, Ben&Jerry's released their Peace Pops, with 1% of sales being donated.

Ben&Jerry's social and environmental contributions are far too numerous to even mention here, with social programmes such as those already mentioned, being launched every year. In nature too, these causes are radically different, ranging from campaigns against bovine growth hormone to fundraising for childline in the United Kingdom. The company has had a number of firsts with keeping its own house in order, in 1998 Ben&Jerry's introduced a new environmentally friendly pint container made from unbleached paperboard, a first for the ice-cream industry.

With more than $273 million in yearly sales Ben&Jerry's is not a financial success in spite of, but rather because of, their strong ethical commitments. This is also clearly visible in the awards that the company has won. In 1988 Ben Cohen and Jerry Greenfield were named American Small Business Persons of the Year, and the Council on Economic Priorities awarded Ben&Jerry's with their annual Corporate Giving Award. The Wall Street Journal's 1999 Reputation Index placed Ben&Jerry's as the fifth most recognised brand in the US, which is telling, as there is little financial comparison between the company and other top ten firms such as Coca-Cola. The only explanation that is forthcoming, would be to ascribe it to the company's high and positive social profile. Lastly, in 2001 the Coalition for Environmentally Responsible Economies and the Association of Chartered Certified Accountants, announced that Chiquita Brands International and Ben&Jerry's were joint winners in the Outstanding Sustainability Reporting Category of the first U.S. Sustainability Reporting Awards.

Discussion.

Ben&Jerry's provides an excellent example of CSR at its best, but the company not only did the right thing, they also made sure that this was publicly known. The company's brand and especially its product ranges kept in constant touch with the issues of the day through extensive use of cause related marketing and full stakeholder engagement. Both of which afforded the company additional media coverage. When asked to describe the company's strategy Ben Cohen provided the following answer: "*Our focus has been on reparative business – business that focuses on repairing social problems. This goes beyond mere sustainability and simply doing* *no harm. It means proactively investing in building a strong community – locally and globally.*"[92] As one might expect, the company faced many challenges, but the biggest of these did not come from outside sources. According to Cohen, there was measurable resistance from the company's own upper-level management because of views which correspond to those of Milton Friedman, as discussed in Chapter Two.

How did the company overcome these and other obstacles? Through a clear and decisive break with the 'old company' paradigm. Ben&Jerry's knowingly avoided all the Myths[93] listed in Chapter One and centred corporate strategy around long-term and not short-term profits. Secondly, the company did not view giving money to charity as the end all and be all of CSR, instead CSR principles were woven into the very heart of Ben&Jerry's business strategy. This was achieved through programmes such as partner shops. Partner shops are Ben&Jerry's franchises that belong to a charity organisation for whom the franchise fee of $25 000 had been waived. Partner shops also receive professional assistance from Ben&Jerry's.

Correct stakeholder engagement was also cardinal to the success of the company, with identified stakeholders ranging from dairy farmers, to customers, to the global community. One current project entitled: One Sweet Whirled, is an odd mixture of ice-cream flavour and environmental campaign. The campaign is supported by renowned musician Dave Matthews and targets global warming.

Ben&Jerry's thus provide a near perfect example of a company which, not only takes CSR seriously, but also integrated ethical considerations into every facet of its operations. By doing so the company greatly enhanced its brand name and increased its profits exponentially. The fact that Ben&Jerry's exported that same formula with similar success on the global market clearly shows the power of a socially responsible brand.

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[92] Wessels 2001a, 9

[93] Ben Cohen also refers to such notions as myths.

Part Three: Internal issues

Chapter Four

- Internal aspects of business ethics
- Case study: Northeast Utilities

Chapter Five

- Issues in corporate governance
- Case study: Enron

Chapter Six

- Problem resolution techniques
- Case study: Ford Pinto

Chapter Seven

- Conclusion

Chapter Four
Internal aspects of business ethics

4.1) Introduction.

4.1.1) The discussion in Part Three.

In Part One, we examined the need for increased corporate ethicality[1] as necessitated by, amongst other things, the changing business environment. This was followed by the discussion, in Part Two, of ethical affairs and actions, located or operating outside of the company itself. Now our gaze finally turns to ethical issues concerned with a company's internal functioning. Part Three will address these internal issues under the headings of: internal aspects of business ethics, issues in corporate governance and problem resolution techniques.

In the first two parts we have moved from examining the current corporate situation, to the ways in which companies deal with external factors, including forms of external communication. In this, the third and final part, we move to the heart of business ethics. Literally to the heart of the company, as presented by its internal structures and culture. The central question of this thesis is thus answered in a cumulative fashion, spread over the three parts.

To recap, the central question of this thesis reads as follows: *What are the core factors contributing to the formation of the new business paradigm and how do these undermine the old paradigm; what are the challenges faced by this new paradigm, both internal and external; how are these challenges dealt with; and lastly, what advantage if any, does the new paradigm have over the old?*

Whereas Part Two endeavoured to answer this question with a focus on those elements pertaining to external factors, we now move to internal factors. Part Three focuses on internal aspects of corporations, which may well be the most important. For it is the internal workings of a company that finally determine how it will respond to the pressures of globalisation, and other associated factors. Internal structures and

[1] As introduced in Chapter One, the term ethicality refers to the measure to which a company has truly internalised ethical principles and practices.

culture therefore constitute the location at which the break with the 'old company' paradigm takes place. Hence, the movement towards the 'new company' paradigm has to start internally, which also explains the importance of the subject matter presented in Part Three, as far as answering the central question of this thesis is concerned.

To fully explore the internal nature of companies, within the globalised economy, Part Three will start by considering the impact that corporate culture has on a number of issues, most notably, whistle blowing and fraud. This discussion, as presented in Chapter Four, will focus on broader issues such as human rights, in order to lay the groundwork for Chapter Five, which will look at more specific issues in corporate strategy and connected ethical considerations. Even though there is an obvious progression here, there is also a blurring of the lines between the subject matter of Chapters Four and Five, which is due to the inherent connection between corporate culture and structure. Any change in one has the potential to affect the other. Finally, Chapter Six will probe ethically grounded means of solving problems within corporations.

4.1.2) Internal aspects of business ethics.

To effectively break with the 'old company' paradigm, and fully answer the pressures of globalisation, much more than just externally directed strategies, such as those examined in the previous chapters, are needed. Companies have to develop, implement and internalise new principles of practice, which are ethically grounded, thus effecting an increase in corporate ethicality. To study this change, internal aspects ranging from corporate moral agency to managerial style will be discussed, with a special view towards the impact of human rights on the corporate environment.

The first section of this chapter will look at corporate ethicality with reference to the establishment of new corporate practices and corporate virtue. This discussion will show how companies, in a break with the 'old company' paradigm, are becoming increasingly sensitive to ethical concerns. It will also introduce the contention that society, at least initially, judges companies on a virtue ethical basis by means of reference to a company's perceived culture or character.[2] Included in this perceived character would be a company's human rights record, consequently an investigation thereof can also aid this Chapter.

A discussion of human rights, within the corporate context, presents three main areas on which one can focus, namely; worker/employee rights, the rights of companies and the rights of customers.[3] In keeping with the context of this chapter, only the rights of companies and their employees will be considered at any length.

Traditionally the term worker may have referred to non-managerial employees. This distinction will not be made here, and the two terms will be used as synonyms, in keeping with the South African Bill of Rights. The Bill opts for 'employee' when dealing with the rights of all employed people, irrespective of their level of employment within a corporate hierarchy.[4]

Lastly, this chapter will look at the problems of whistle blowing and fraud, including possible preventative strategies. These two issues, as will be shown later, are connected through the circumstances that are conducive to both. One such problem being that of overly authoritarian management, which is yet another remnant of the 'old company' paradigm.

Each of these discussions will show how problems, to a large extent associated with the 'old company' paradigm, can be overcome by changing and renewing corporate culture. However, before addressing such specific issues, general corporate ethicality must first be addressed. Stated differently, before specific ethical issues within the corporate context can be viewed, the measure and manner in which companies are open to all ethical issues must first be established. This preliminary discussion will also lead to the formulation of a position concerning the rights of companies.

[2] The outwardly visible character of a company would, in this case, be a result of its internal culture.
[3] Although these three issues are by no means the only ones that could have been raised.
[4] See Appendix E. The South African Bill of Rights, as found in Chapter Two of the South African Constitution.

4.2) Corporate ethicality.

4.2.1) The establishment of ethical practices.

Pre-eminent in the field of business ethics, is the notion that no aspect of corporate conduct or being, is totally devoid of ethicality. Which is why it is of the utmost importance that ethical considerations play a part in every corporate decision and action. This line of reasoning extends to the very heart of the company, namely its culture and structure. As already stated, this chapter will focus on corporate culture, with Chapter Five examining corporate structure.

For a company to fully, and sustainably, act in an ethically correct manner, the move towards greater ethicality has to be a change that is more than skin deep. Consequently, external strategies and programmes, such as CSR initiatives, have to be based on a sound internal culture of ethicality. To achieve this, a multitude of different approaches present themselves as possibilities, with one commonality. Change should be thorough and be implemented from the top down to the lowest rungs of the organisation, so that it is a true change in culture, and not just the introduction of new operational directives for some departments or divisions within the company. In addition, the following three points touch on the most important aspects of such a change:[5]

1. *Corporations should acknowledge the importance, even necessity, of conducting business morally. Their commitment to ethical behaviour should be unequivocal and highly visible, from top management down.*
2. *Corporations should end their defensiveness in the face of public discussion and criticism. Instead, they should actively solicit the views of stockholders, managers, employees, suppliers, customers, and society as a whole. Corporations should invite outside opinions and conduct a candid ethical audit of their organisational policies, priorities and practices.*
3. *Corporations must recognise the pluralistic nature of the social system of which they are a part. Society consists of diverse, interlocked groups all vying to maintain their autonomy and advance their interests. These groups are so related that the actions of one inevitably affect the standing of another on a variety of levels: economic, political, educational, and cultural. As part of*

[5] Shaw & Barry 2001, 212

society, corporations affect many groups, and these groups affect corporations. Failing to realise this or to act on it, corporations lose sight of the social framework that governs their relationship with the external environment.

Corporations are thus, inescapably linked to the rest of society. A link which extends not only to the company as an entity, but also to its individual employees. For a company to acknowledge this link, especially on the grounds set out by point number four, implies that management is cognisant of needs other than their own. This in turn acts to undermine authoritarian management, as management is now compelled to take the points of view of others, including staff, into consideration. Moreover, this plays an important role in the way that employees experience their work, and think about their company: "*A distinction can be made between the objective and subjective meaning of work. The objective meaning refers to what work produces. Work can produce a product or a service for a business. At the same time it can also produce and income for the employee or a profit for the business. It is a grave mistake to regard this as the only meaning of work, thought. This view neglects the subjective meaning of work. That is what work means to the person doing it. People are shaped by the work that they do.*"[6]

The point made here is of immeasurable value. As will be shown later, corporate cognisance of this fact can assist in dealing with both whistle blowing and fraud. From the same discussion we will also, yet again, see that ethically correct behaviour, especially at the managerial level, reduces costs.[7] The reduction in costs being due to the prevention of costly problems.

Stating that employees, and society at large, feel a certain way about a company, carries with it an ethical or moral implication. The implication being, that people judge companies on standards that are similar to those used to judge other humans. With companies essentially constituted form a collection of people, this is no surprise. Which leads to the following discussion of corporate virtue, touching on the question of corporate moral agency.

[6] Rossouw 2002, 28; 29
[7] Werhane 2002, 339

4.2.2) Corporate Virtue.

The term corporate virtue implies that a certain moral character can be attached to a company. But how would this be possible? A company, like any collective, does not have a fixed constituency and as such, even the manner in which it exists can be questioned. Consequently the moral character of the whole cannot solely rely on that of its constituents.[8] On a practical level too, it would be impossible to continuously reconceptualise the moral character of a collective, every time its constituents change. Especially since the effects of globalisation have both accelerated, and institutionalised, change. One possible answer to this situation, given that public debate does generally ascribe moral characteristics to companies, is to contend that a company can have a moral character in the same way that it has a name or a logo. Thus the connection is made to the collective, irrespective of a changing composition. Discussing corporate moral agency, in this manner, does unfortunately carry the risk of permanently remaining on a meta-ethical level. Instead a more direct solution is needed, since the name/logo comparison is most definitely not sufficient.

Corporate moral agency can also be examined by means of reference to a concrete example, namely, American law.[9] Through two U.S. Supreme Court rulings it has been established that companies, under U.S. law, have the same rights as individuals.[10] The American Supreme Court rulings, by implication, not only grant companies similar rights to individuals, but also similar duties and responsibilities.[11] If companies then, have rights and responsibilities comparable to those of the individual, one would be justified in making moral judgements concerning the company's conduct. The further implication here is that companies are judged, not so much on the consequences of their actions, but rather on the nature of the action itself. So, for instance, there was already a large scale public outcry over the Enron scandal long before the eventual consequences became known.[12] Thus the public expect

[8] Danley 2001, 243; 244
[9] A similar argument could have been formulated utilising the South African Constitution, in particular the section pertaining to rights. The American example does however predate the South African Constitution by several decades, thus setting the precedent.
[10] Rights will be discussed later in this chapter.
[11] Shaw & Barry 2001, 199; 200
[12] Enron will be discussed in the case study presented at the end of Chapter Five.

companies to act in a certain ethically and morally acceptable manner, disapproving if they deviate.

Judging the company purely on the difference between its actions and how the public expected it to act, is a judgement on the basis of virtue ethics. This does not, however, mean that moral judgements about companies are made on no other grounds, just that initial judgements are made in this way.

Virtue ethics, similarly to other prescriptive ethical theories, attempts to inform one on how he or she ought to act. What sets virtue ethics apart, is the way in which it seeks to do so. Unlike other forms of ethical theory, virtue ethics studies the virtuous agent/individual and in so doing extrapolates which actions are correct and which incorrect. Slote explains this as follows: "*... the main contrast ... is with forms of ethics based on moral laws, rules [and] principles. In virtue ethics, the focus is on the virtuous individual and on those inner traits, dispositions and motivations that qualify her as being virtuous*."[13] A further distinction is that many, if not most, other theories in business ethics give precedence to three main factors concerning business actions (and thus neglects the virtuous agent). These factors are: the principles of the action, the action in itself, and the action's consequences.[14] Virtue ethics does not afford actions this position of primacy, rather it turns to the moral agent.

At first this agent focused theory may seem a bit strange; what, after all, could the corporate interest be in the public perception of the virtuous agent? Until one considers the vital importance of perceptions within the business context, particularly in the light of the preceding discussion on corporate moral agency. If customers perceive a company as lacking in virtue, said company may find it increasingly difficult to do business. This not only holds true for a company's external appearance but also for the relationship with its employees: "*Maslow*[15] *did experimental work ... that shows a correlation between a positive working environment and what he calls*

[13] Slote 1999, 177
[14] Solomon 2002, 30
[15] For an explanation of Maslow's theory of self-actualisation please refer to Appendix C.

self-actualisation ... [I]t is not only people that produce work, but also work that produces people."[16]

Virtue ethics has a long history, which for the purpose of this discussion, we will trace back to Aristotle (384 -322 BC). Of particular importance is his *Nicomachean Ethics*, in which Aristotle advances the concept of the 'mean.'[17] What is right or noble, according to this concept is that which is the mean between two extremes. For example: in a dangerous situation the right thing to do would be the mean between cowardice and foolhardiness. This does not mean that the concept is universally applicable. Reconciling certain virtuous traits, which we today consider as important, such as honesty for instance, with the concept of the 'mean' would be difficult.[18] This does not necessarily imply that the 'mean' is of no contemporary use. The 'mean' has definite potential in situations were competing considerations have to be balanced, which implies its suitability to the business context.[19]

To recap, corporations not only have rights, but also obligations comparable to those of the individual. Meaning that companies can be judged on an ethical basis, most likely, or at least initially, on a virtue ethical basis. Subsequently, corporations are judged based on the difference, if any, between their practices and those of the virtuous company/agent.

How exactly the virtuous agent is supposed to act, eludes precise definition. We can, however, infer two general propositions. Firstly the virtuous company will not intentionally transgress the rights of either its employees or its customers, and secondly the company will not intentionally break the law. Central to the discussion in this chapter then, is human rights. In general rights can be defined as: "*lines in the sand, legal boundaries that must not be crossed, with punishments for transgressors. If people all stay on their own sides of the lines, the 'justice of rights' is achieved*".[20] Furthermore, the 1993 World Conference on Human Rights declared that human

[16] Rossouw 2002, 115
[17] Solomon 2002, 30
[18] Slote 1999, 184
[19] This and other possibilities will be further discussed in Chapter Six.
[20] Humbach 2001, 41

rights are, amongst other things, universal.[21] How rights function within the corporate context will be discussed in the following section.

4.3) Human rights in the corporate context.

4.3.1) The rights of employees.

The relevance of rights, as far as this chapter is concerned, is located in the manner in which corporate culture deals with the issue. This is markedly the case when one considers the rights of employees, especially as far as corporate recognition of these represents a break with the 'old company' paradigm.

As we have already seen, companies/employers have similar rights to those of individuals. What complicates this situation is that the base elements of a company, its employees, also have rights, which entails the possibility of a conflict of interests and rights. To assist in clarifying this situation the legal position of human rights, as presented by a Bill of Rights, will be viewed.[22]

The essential notion of a Bill of Rights, is the protection of the individual against abuses of power and discrimination. A Bill of Rights represented in a Constitution, thus serves to undermine total power.[23] Citizens of a country can, on constitutional grounds, challenge any injustice done to them. Not even the national government can circumvent the authority of the Constitution and Bill of Rights. One can thus conclude that, rights serve to protect the citizenry in all facets of their lives.

Rights are however, not unqualified. Rights can be restricted, most notably, if leaving them as unqualified absolutes, would result in the infringement of other rights. So for instance the right to freedom of speech does not allow for hate speech. So too, belonging to an organised crime syndicate remains illegal, in South Africa, and is not excused by the right to freedom of association. The principle can be summarised by stating that: "immunity invites abuse".[24]

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[21] Stoilov 1995, 87. It should be noted that this declaration is not without its opponents.
[22] Since the exact legal formulation of a Bill of Rights varies from one country to the next, and is totally absent in many legal systems, a list of rights will not be presented here. Instead the concept will be discussed. Appendix E contains a reference to rights under the South African legal system.
[23] Leon 1994, 40; 41
[24] Leon 1994, 42

Rights, as discussed thus far, apply to the citizens of a country in all contexts. Therefore, the rights of employees are merely traditional human rights, with a contextual reference. Thus functioning in a manner similar to other context referential rights, such as the right to housing. This view of workers rights, is used in opposition to the suggestion that workers have special rights, distinctly different from normal human rights. Some, as we will see, even propose a separate Bill of Worker's Rights. This approach will not be followed here, since other rights, for instance the right to privacy or freedom of association, may have specific meanings in the corporate context, but they remain as human rights, equally applicable to all citizens.[25] Hence, the rights that workers have within the context of their employment are merely derivatives of the rights that they have as citizens.

Even though the South African Bill of Rights articulates employee rights, these rights are still not truly distinct from other human rights. The South African Constitution explicitly states a number of points pertaining to the rights of both employers and employees. These rights are not new structures but are all related to more general rights, like the rights to freedom of speech, freedom of association and freedom of movement. To suddenly conceive of rights as being totally context bound, such as rights you only have while you are in the position of employee, also undermines the notion of rights being universal. If rights are truly universal they must, by implication, be able to transcend context, either independently, or by means of their more general corollaries.[26] Thus one can infer, that rights may be applied in a context bound manner, but that their existence is not context bound, as would have been the case with a Bill of Worker's Rights.

The proposition that workers have special rights, that are divorced from other rights through an independent Bill of Worker's Rights is advanced by, amongst others, David W. Ewing.[27] He developed nine proposed employee rights. These will however not be listed here, just discussed.[28] Of the nine 'rights', eight are directly derived from

[25] Machan 1987, 455 – 457
[26] The right to unionise would, for instance, find its general corollary in the right to freedom of association.
[27] Ewing 1977, 426 – 430
[28] The choice of the term employee over worker is that of Ewing.

human rights which employees can already call upon. Ewing does this without recognising the link between worker's rights and other rights. Incorporating such 'rights' into the constitution would be superfluous in the extreme, as they would serve no true function. The only one of Ewing's 'rights' that does not fit into this group is the first, which states that companies may take no action against employees, who criticises the company publicly. In the earlier discussion of corporate moral agency, we saw that companies can be assigned the same rights as individual citizens. This means, that no law may be passed that would infringe upon the rights of companies. Ewing's proposed 'right' would directly infringe on both a company's right to privacy and its right to freedom of speech. Given that the 'right' (proposed by Ewing) allows employees to say anything, they can, under the guise of whistle blowing,[29] make public corporate secrets without the company being allowed to properly defend itself.

Secondly, such an absolute statement invites abuse. It would open the door to all sorts of vindictive actions, by employees or ex-employees inclined to do so. Instead, legitimate whistle blowers should be protected and encouraged without infringing on the rights of companies. Thus the previous conclusion is reaffirmed, the rights of workers/employees are inherently connected to human rights and cannot function in separation.

The above formulation does not affect the validity of rights within the context of employment, nor does it ignore the traditional exploitation of workers.[30] It merely views workers rights as human rights, which have been applied to a specific context. Traditionally non-managerial workers, specifically unskilled and semiskilled labour, have not been treated in a manner consistent with contemporary conceptions of human rights. Labour relations are, however, improving.

One of the most prominent forces in international labour relations is the International Labour Organisation (ILO). The ILO was founded in 1919 to function as a standard-setting body, which produces both conventions and recommendations.[31] A convention is an international treaty, with member countries having to choose between ratifying it

[29] A pro-whistle blowing position will be developed later, but on legally and economically sound grounds.
[30] Exemplified by Ricardo's iron law, as discussed in Chapter One.
[31] Tajgman 1994, 50

or not. If a country ratifies a treaty it is obliged to fully comply with the treaty's stipulations. Recommendations, on the other hand, are just guidelines and do not have to be ratified.

The process of raising awareness for worker rights has been slow, though. From the radical propositions of Karl Marx, to the conventions of the ILO, to the right to freedom of association,[32] can be understood as a rise in such awareness. Unfortunately, many corporations have regarded the rights of their workers as an obstacle to profit taking. Until the early 1990s, for instance, GM (General Motors) still explicitly viewed its employees as adversaries.[33]

Corporate understanding of the intricate relationship between human rights and business has increased significantly, as is visible from the newfound prominence of human rights issues in economic negotiations, such as those of the World Trade Organisation (WTO).[34] The increased awareness concerning employee rights, can be linked to a heightened awareness of human rights issues. Employee rights are also not the only human rights issues that companies should be attentive to. In this regard Wilson identifies the following five areas:

1. *Third world development and fair trade.*
2. *The use of child labour.*
3. *Operating in countries with oppressive political regimes.*
4. *The arms trade.*
5. *Worker and union rights.*[35]

Although the exact responsibilities and areas of concern would vary from one company to the next, the need for companies to be aware of such issues is globally applicable. One way of addressing this issue and other related aspects, such as variances in international law, is by proper stakeholder engagement. As such, companies must identify, and engage with, the associated national and even

32 Thus also the right to unionise.
33 Helgesen 1995, 35
34 Madelin, Pitton & Van den Bos 2001, 21
35 Wilson 2001, 5

international stakeholders, in order to correctly identify and address the relevant human rights issues.[36]

With the formation of the ILO and the internationalisation of the concept of rights, and thus the rights of workers, progress has been made in the quest for improved global working conditions. Unfortunately, the advancement of technology has made new abuses within the corporate context possible, particularly concerning the right to privacy. The biggest contemporary threat to an employee's right to privacy being electronic surveillance. A number of recent studies, have found that electronic surveillance is not only used by forty-five per cent of American firms, but it is on the increase. If traditional forms of monitoring used for security, such as video cameras, are included the number of firms using surveillance techniques, jumps to sixty-seven per cent.[37] Even though the researchers only examined American firms, the results remain worrying.

To fully appreciate the situation one must first conceptualise, what is meant by the right to privacy. "*The right to privacy can be identified as the right people have to determine what, to whom, and how much information about themselves shall be disclosed to others.*"[38] With the advent of new technology such as computers, the Internet, etc. the right to privacy has come under increasing pressure. Employers can now observe, listen and read, any peace of information, including behaviour, created by an employee without the knowledge of that employee. Furthermore, many companies make use of methods, during internal investigations, that would not be permitted in a court of law, such as lie detector tests.

The impact of technology extends not only to privacy in the workplace, but also to customer privacy. As stated previously, the rights of customers will not be discussed here in any great detail, given that this chapter is concerned with the internal culture of a company. The internal culture of a company[39] can, however, produce external results, which justifies the following brief discussion of such results.

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[36] Madelin, Pitton & Van den Bos 2001, 20
[37] Skyte 2002, 1
[38] Velasquez 2002, 467
[39] In this instance, relating to issues of human rights.

4.3.2) Internal culture and external consequences.

Human rights are of course not only applicable to a company's relationship with its employees, but also with its customers and society in general. Following the same logic as above, the rights of customers can be viewed as human rights applied to a specific context. Accordingly a number of such rights can be discussed, although they will not be specifically listed here.[40] Instead, the potential external results of internal attitudes towards human rights will be briefly considered. This will be done by means of reference to two examples, both of which deal with an infringement of human rights on the part of the company. In the first example the human rights of human dignity, life and freedom and security of the person, are infringed upon. The second example deals with the right to privacy.

From the introductory discussion of the 'old company' paradigm, it became clear that the 'old company' sees little importance in the rights of others. Consequently, it acts purely from the intent to maximise short-term profit, with no or little regard for long-term and non-financial implications.

One example of this being an intrauterine contraceptive device sold in America in the 1970s, called the Dalkon Shield. Initially thought to be safe and effective, due to inadequate research, it was later determined that the device was neither. Health problems experienced by women who used the device included life threatening infections, birth defects and sterility.[41] The severity of this situation is unmistakable when one considers that recent research found intrauterine contraceptive devices can lead to chronic inflammation, focal acute inflammation, ulceration, focal irregular ripening, papillary metaplasia, vascular thrombosis and pseudo-decidual change.[42] This was never communicated to those who used the products, mainly because initial research was insufficient to uncover all these problems. The research that was done, showed the contraceptive qualities of such devices, findings which have been refuted by more recent studies. Even worse, no precise medical explanation could yet be found for instances were the device did succeed in preventing pregnancy without the addition of further measures.

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[40] Khodoga 2002, 32
[41] White 1993, 273
[42] Underwood 2001, 507

This instance clearly illustrates the external consequences of a company's internal policies and culture. The second example that will be shown, in this regard, touches on a matter that is a truly global concern, privacy.

Privacy has particularly suffered from the advent of the information age. The Internet and computer databases, have provided marketers with powerful new tools, with which they cannot only manage customer records but also track customer activities. Till very recently, privacy had not been very high on the agenda for those using these technologies. One author explains this position by reference to a database marketing[43] seminar: "*[S]eminar on database marketing that promised to 'teach how to pre-program customer loyalty' – treating the consumer as an 'object' to be manipulated ... this seminar's focus [was] on the database marketer's 'skill' and the computer's 'power' instead of how buyers feel about sellers ... the word database was used over and over again but the word privacy wasn't even mentioned.*"[44] The result of this attitude was the filing of nineteen different law suits, against one of the biggest companies in the industry.

These two examples show how internal culture and practices can have an external impact, but these external results do not have to originate from direct interaction with external entities such as customers. If a company acts in such a way as to go against the conscience of one, or more, of its employees, the affected employee may opt to publicly expose the company. This is the essence of what is referred to as whistle blowing.[45]

4.4) Whistle blowing.

4.4.1) The problem.

Whistle blowing has come to the fore as one of the most contentious issues in business ethics, by bearing witness to some appalling corporate abuses, followed by

[43] A technique which involves the compiling or buying of a database, that contains the personal details of a large number of people, these details include spending habits. The database is then used by marketers to identify and contact potential customers. Contact can be through any means imaginable, such as e-mail, telephone, etc.
[44] Shaver 1996, 3; 4
[45] Velasquez 2002, 470; 471

the victimisation of employees who, in their opinion, acted for the good of society. Of course, employers still operating from the 'old company' perspective, would see the actions of whistle blowers as a betrayal, or actions against the short-term profitability of the company.[46] In this section we will firstly explore the problem, thereafter suggesting strategies for constructively dealing with it. These strategies will present three main approaches to the situation, with the first focusing on a legislative approach, the second on formal techniques (corporate structure) for dealing with whistle blowing, and the third on the causes (corporate culture) of the problem. It should also be noted that corporate culture and structure are inherently linked, given that changes to either one can affect the other.

Generally speaking, people are considered to have a moral obligation to prevent serious harm from befalling others. This obligation is, however, qualified by the implication of one's actions for oneself. In general, this qualification maintains that one is expected to protect others, only if doing so does not hold disproportionately large negative implications for oneself. Consider in this regard, the difference between warning somebody about a possible danger, and sacrificing your own life to save another.[47] If however, harm to a third party is the result of action on the part of one's employer, the situation becomes considerably less clear and represents one of the central challenges behind the issue that has become known as whistle blowing.

Besides for the prevention of harm principle, there is also a second justification for whistle blowing. Instead of acting to prevent harm to others, it is conceivable that one might act to prevent complicity in an act that is harmful to others. Hence, this line of reasoning is referred to as complicity theory.[48] Whatever the initial motivation of the whistle blower, the end result remains the same. Subsequently, no choice between the two positions will be made here, instead the act of whistle blowing in itself will be considered.

The definition of whistle blowing that follows was presented by Professor of Philosophy, Norman Bowie: "*A whistle blower is an employee or officer of any*

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[46] The 'old company's' preference for short-term profitability, and neglect of long-term sustainability, was discussed in Chapter One.
[47] De George 2001, 516
[48] Davis 1996, 420

institution, profit or non-profit, private or public, who believes either that he/she has been ordered to perform some act or he/she obtained knowledge that the institution is engaged in activities which (a) are believed to cause unnecessary harm to third parties, (b) are in violation of human rights, or (c) run counter to the defined purpose of the institution and who informs the public of this fact."[49]

Those opposed to the practice of whistle blowing usually argue along the following lines. They would state that an employee has entered into a contract with his or her employer, with part of the employee's contractual duties being the safeguarding of trade secrets and proprietary information. Whistle blowing therefore, violates the rights of the employer.[50] This clearly ignores the fact that rights are not absolute, that rights can be qualified. A company's right to privacy, for instance, does not allow it to withhold crucial product information from clients. Similarly, neither rights nor contracts can, under the law, legally compel one to commit or be party to a crime or an immoral act.[51] Thus, the argument against whistle blowing does not hold.

Conversely, the right to freedom of speech does not inherently justify whistle blowing.[52] An employee's right to freedom of speech, is not sufficient grounds for breaking his or her obligations to the company. Instead, the conditions for whistle blowing, as defined by Bowie, must apply.

Whistle blowing is also characterised on a secondary level by its after effects. Those who undertake this course of action are usually subjected to great penalties, both from their employer and fellow employees. This can include victimisation and the loss of employment.[53] In the long-term, negative after effects may even extend to great financial and psychological burden, such as loosing one's house or the break up of a marriage. Some employers may even resort to the type of intimidation techniques more readily associated with organised crime. This, surprisingly, is exactly the way in

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[49] Shaw & Barry 2001, 377
[50] Velasquez 2002, 472
[51] This is morality as represented by the accepted norms and practices of society.
[52] Velasquez 2002, 473
[53] White 1993, 377

which some sections of the European Commission reacted, when one of their members blew the whistle on internal fraud.[54]

A further aspect of the 'old company' paradigm that encourages the occurrence of whistle blowing, is the skewed power relations between management and employees. In its purest form, the 'old company' locates all power and decision making at the managerial level, with workers having no say. As will be shown in Chapter Five, newer forms of corporate structure actually endeavour to undermine this situation, in order to move away from authoritarian management systems towards a more inclusive style. Of the three solutions to the issue of whistle blowing presented below, both the second and the third constitute a voluntary movement away from the 'old company' paradigm. The first solution, being legislative in nature, encourages such moves by protecting legitimate whistle blowers.

4.4.2) Possible solutions.

In response to the problems associated with whistle blowing, three primary solutions can be formulated. The first of which deals with whistle blowing in a reactionary manner, on a legislative level.

Considering that legitimate whistle blowing is in the public interest, it should, for the sake of the public good, be encouraged. Encouragement in this instance, being channelled through the law. In South Africa this was introduced in the form of the Open Democracy Bill. The Bill not only protects whistle blowers, it also furthers the cause of freedom of information.[55] The principles set forward in the Bill was eventually enacted through the Protected Disclosures Act of 2000.[56] Recent steps in the United States to combat corporate corruption, also included increased protection for whistle-blowers. Interestingly, the Sarbanes-Oxley Act of 2002 which affords this protection was drawn up as a response to the Enron, WorldCom and other scandals.[57] These same scandals have also acted to underline the importance of transparency and corporate reporting, as discussed in Chapter Three.[58]

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[54] Van Buitenen 2000, 136 – 139; 216 – 229
[55] www.pili.org/lists/piln/archives/msg00191.html
[56] Act no. 26 of 2000 (Government Gazette vol. 422 no. 21453)
[57] Bazerman, Loewenstein & Moore 2002, 97
[58] Holliday, Schmidheiny & Watts 2002, 141

The strategy outlined thus far, is aimed at encouraging whistle blowers to come forward, by protecting them once they do. Protection is afforded with the understanding that, the whistle blower had stayed within the accepted boundaries of both the law and correct procedure. This is extremely important, since a company or institution corrupt enough to engage in immoral or illegal practices, would most likely also seek revenge against the whistle blower.

Whistle blowing is, however, not only the result of immoral or illegal actions on the part of the company. It also represents a breakdown in communication. If an employee feels compelled to go outside the company to state his or her case, it usually means that nobody inside the company was willing to listen to them.[59] This leads to a second, and preferable, solution. If an employee feels compelled to address a certain situation pertaining to the company, there should be a structure or mechanism through which he or she can do so. If a company redefines[60] loyalty to the company as bringing problems to the fore and solving them, potential whistle blowers would be able to air their concerns within the company. Thus, in effect preventing all the negative results for both the company and the whistle blower. This is of course contingent on a serious commitment from the company to act on employee concerns.

The second solution, presented above, has a structural approach to the problem of whistle blowing. It aims to deal with the situation by means of new corporate structural entities, such as the appointment of an ethics officer. This strategy is, however, still reactive in nature and what is truly needed is a proactive strategy, as presented by the third solution.

The ultimate challenge for companies, presented here, is therefore not issues of privacy or employee loyalty, but the prevention of the conditions which lead to whistle blowing. Thus pre-empting the problems associated with whistle blowing. Some may contend that the second solution is sufficient, but in truth it only deals with part of the problem by keeping the whistle blowing internal. A far better solution

[59] Velasquez 2002, 474
[60] Loyalty under the 'old company' paradigm was largely seen as silent obedience. It should also be noted that this second solution is not exclusively structural in nature, but also impacts on corporate culture. This is due to corporate culture and structure being inherently connected.

would be to address the root causes of whistle blowing, instead of just allowing people to blow the whistle internally. This is due to whistle blowing, not representing a violation of privacy or loyalty on the part of the concerned employee, but rather multiple failures on the part of the company. The company, in the case of public whistle blowing, not only failed to listen to the complaints of its employee, but it also failed to prevent the situation that the employee is complaining about. This introduces the third and final solution, which focuses on aspects of corporate culture.

In order to truly prevent whistle blowing, the company must not act in a manner that contradicts the law or moral standards. Corporate structures and directives or policies alone are not enough to prevent such transgressions, since, as we will see from the Enron case study at the end of Chapter Five, corporate culture can have a greater impact on actions taken that any structure or directive. In the Enron case even the company's code of ethics was suspended by the board so that it could act unhindered. The third solution, thus, is to actively change and reinforce corporate culture in an attempt to increase corporate ethicality.[61] Interestingly, the tools for achieving this are structural in nature, most notable in this respect is a properly managed and implemented code of ethics.[62]

Conversely to whistle blowing, in the case of fraud, the company usually becomes the victim, since fraud at any level can negatively impact on the company as a whole.[63] What makes this problematic though, is that whistle blowing is often in response to unchecked fraudulent activity at the company or organisation. The following discussion will examine fraud, with a specific view towards prevention.

4.5) Pre-empting fraud.

The question of fraud will be examined in this section, but not in the traditional way. The tried and trusted *modus operandi* for dealing with the issue of fraud, can be divided into two segments. Firstly the nature and causes of fraud are examined and secondly, reactive measures to deal with fraud are designed. Even those measures

[61] As introduced in Chapter One, ethicality refers to the measure to which ethics is internalised within a company.
[62] This topic will be expanded upon in Chapter Five.
[63] Even if the fraud is committed by high level company officials, the company can still be the eventual victim.

which are implemented before the occurrence of fraud, and commonly referred to as fraud prevention, are reactionary in nature, since they only address the problem once it is actually being committed. These strategies only stop fraud from being successful and not from being attempted in the first place, the difference is significant.

The analysis of fraud presented here will still adhere to the first traditional segment, as introduced above. Thereafter alternative means of addressing fraud will be considered. These strategies will focus on undermining the conditions which contribute to fraud being committed, thus endeavouring to truly pre-empt fraud. To aid in this we will firstly examine the nature of fraud in general, before dealing with the pre-empting of fraud in the corporate context.

The Australian Institute of Criminology defines fraud as: "*obtaining something of value or avoiding an obligation by means of deception. This embraces many and varied forms of conduct, ranging from false claims against an insurance policy to some corporate frauds that are meticulously planned and intricate in their execution*".[64] The occurrence of fraud can be attributed to three factors, the presence of people adequately motivated to commit fraud, the availability of suitable targets, and a lack of countermeasures (meaning both people and structures).[65] Interestingly enough, some natural scientists have noticed a similar trend, in the manner in which some of their less reputable colleagues obtain financing.[66] Fraud is therefore, especially with the advent of information technology, almost unlimited in its scope. With most attempts at addressing the issue of fraud, being reactive and not pre-emptive in nature, the focus has been on the second and third of the three factors, as opposed to the first.

According to the Australian Institute of Criminology, Psychological circumstances also play an important role in deviant activity.[67] The psychological motivations for fraud cannot simply be reduced to greed and dishonesty, a number of factors can indeed be identified.[68] The most prevalent of these factors being financial strain,

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[64] www.aic.gov.au/publications/tandi/ti199.pdf
[65] Ibid.
[66] Park 2000, vii – x
[67] www.csvr.org.za/papers/papgsurb.htm
[68] www.aic.gov.au/publications/tandi/ti199.pdf

which may emanate from a variety of sources. Financial strain, in this sense, is also not limited to life or death situations, with social pressures being an equally likely source. Keeping up with the Joneses can, for example, be just as big a motivator as real need. Other sources of financial stress include, the abuse of habit forming substances, divorce and gambling.

A second factor is power or ego. In this instance the person perpetrating the fraud, enjoys the power they have over others while deceiving them. In view of which, it is the act itself and not the financial gain, that becomes the motivating factor. These factors should however not be confused with techniques of neutralisation. Techniques of neutralisation can briefly be explained as prepared excuses, functioning to limit the impact of the fraudulent activity in the perpetrator's own mind.[69] A typical example would be to steal from a bank and to thereafter contend that it was nobody's money, or that the bank could afford it.

These techniques of neutralisation all endeavour to diminish blame, particularly, by placing the victim in a negative position. Consider the submission of a fraudulent insurance claim, with the justification that the insurer 'overcharges their customers in any case.' There is thus, a certain negative perception on the part of the fraudster, concerning the victim. A corporate example of this can be found in overly authoritarian managers who, through their management style, alienate employees and weaken the bond between employee and company. This may not necessarily be the case with fraud motivated by ego or power. Still, it does open up the possibility of a pre-emptive strategy to deal with other forms of fraud, in the corporate context. Such a strategy would function on the basis of forming a positive bond between employee and employer. Abraham Maslow, the renowned American psychologist, contends that positive working conditions can in fact improve the employee and assist them on the path to self-actualisation.[70] This collective improvement in employees, by association, improves the company as a whole, which in turn further improves the employees, and so forth. Other researchers have also established this link by means of reference to self-esteem.[71] If one's self-esteem is positively reinforced at work, then one's

[69] Ibid.
[70] Self-actualisation is explained in Appendix C.
[71] Tjosvold & Tjosvold 1995, 65

company affiliation becomes a positive aspect of the self, and would not likely be jeopardised by destructive behaviour. Maslow also extends this same logic to the fostering of creativity and innovation within a company.[72]

A more direct initiative for achieving such goals may be found in a redefinition of leadership, thus also implying management. Tjosvold and Tjosvold suggest that leaders should help people to care.[73] The word care is used in a very specific manner, referring to the goals of the company as a whole and to the goals of individual employees. The challenge for managers, is to achieve a measure of symbiosis between the goals of employees and those of the company. Thus working towards the cycle of positive influence and reinforcement that Maslow describes. Conversely, managers that adopt a strict and authoritarian style, may damage the self-esteem of their employees. Such damage is usually followed by some form of retaliation from the affected employee, ranging from open vandalism to underhanded dealings.[74] Consequently, an authoritarian managerial style can actually encourage the occurrence of fraud. If on the other hand, management can facilitate alignment between company and employee goals, employees can realise their own aspirations in a manner that is advantageous to the company. Thus also undermining many of the conditions that are conducive to fraudulent activities.

Unfortunately many fraud prevention activities are aimed at protecting a company from fraud, instead of addressing the conditions conducive to fraud. Thus rather than addressing the perpetrator's motivation, these strategies only focus on countermeasures. One prevalent strategy is to inform companies of fraud schemes, thereby preventing the scheme from succeeding, but doing nothing to keep the fraudsters from moving on to their next, uninformed, victims.[75]

As we have already seen, from Maslow's position, pre-emptive measures for dealing with fraud are indeed possible. This logic also extends to the world of cyber crime,[76]

[72] Maslow 1998, 1 – 3; 12; 13
[73] Tjosvold & Tjosvold 1995, 18; 19
[74] Maslow 1998, 55; 56
[75] www.fraud.org
[76] Electronic or computer crime, i.e. crimes that are perpetrated through the use of high end electronics.

with a new approach to hacking being prevention.[77] Unfortunately, new technology also brings new criminal opportunities. Fraud is, through the rise of information technology, extending it to new avenues, computers presenting fraudsters with ever more opportunities. Just consider the following example. An American programmer, employed by a bank, had to write a programme which was to handle the bank's refunds to overcharged customers. The programme he wrote did just that, with the exception that it withheld 25 cents from randomly selected customers, paying the money into the programmer's own account.[78] The scheme was only discovered once colleagues noticed the man's exorbitant lifestyle.

Fraud is not the only such offence that may be committed within the corporate context. Andrew Levy and Associates, in their book entitled *Dishonesty at the Workplace*, point out the following related issues:[79]

1. **Theft.** This includes unauthorised possession.
2. **Misrepresentation.** In such cases, the employee does not necessarily derive financial gain. He or she may only be misrepresenting certain facts in order to avoid penalties, such as dismissal.
3. **Taking bribes.** Here the employee accepts some form of incentive from a third party to act in their favour.
4. **Competing with your employer.** In this instance the employee sets up his or her own business, which is in direct competition with that of their employer.

The focus here has been on the prevention of fraud, as the preventative approach is preferable to all the negative aspects associated with having to catch those already in the act. A factor which is potentially just as worrying as fraud itself, is the zeal with which some companies have launched witch hunts against employees. Such actions are indicative of the 'old company' perspective, which sees non-managerial employees as nothing less than opponents. A further associated factor is that little or no regard is given to the rights of employees. In this respect, the above mentioned work by Andrew Levy and Associates provide an applicable example. The book not only provides definitions of misconduct by employees, it also examines means of

[77] Parker 1998, 482
[78] Parker 1998, 126
[79] Andrew Levy & Associates 1996, 21 – 37

surveillance and investigation. The discussion even touches on subjects such as phone tapping, photographs and video taping, tempting employees, undercover agents and lie detector tests.[80] A telling sign being, the manner in which the book refers to employees that could not be proven guilty. Instead of merely referring to them as innocent, or not at all, the word innocent is placed in inverted commas. Thus implying that the employee got lucky, instead of being truly innocent.

All these measures seem rather extreme, especially if the dishonest actions by the employee could have been prevented. It is however a sad fact that such strategies are employed and do provide results. So, for instance, one of the biggest pub companies in the U.K. used an undercover agent to investigate credit card fraud at one of its establishments in 1995. It took the agent just two evenings to catch the guilty party.[81]

Fraud also represents one of the most prominent aspects of what Schneider and Enste call the shadow economy. The term shadow economy refers to all 'off the books' transactions which by their nature evade the revenue services and thus also skews official financial statistics. The potential for fraud to channel funds from the real economy to the shadow economy is huge. This impacts negatively on all affected parties including society as a whole, most notably through lost taxes and all this implies. Hence, fraud can be placed in the same economic grouping as drug dealing, smuggling, prostitution etc.[82] Normally though many people, especially the perpetrators of fraud, perceive it as being less serious. The fallacy inherent in this line of thought has, however, already been shown both here and in Chapter One.

Schneider and Enste also found that employers, in the legal economy, who cover additional costs through skimping on wages actually encourage their employees to become active in the shadow economy. This yet again reinforces the notion that fraud can be addressed pre-emptively in much the same fashion as whistle blowing.

The connection that has been established, in the preceding sections, between fraud and whistle blowing is twofold. Firstly, fraudulent activity on the side of the company

[80] Andrew Levy & Associates 1996, 60 – 68
[81] The author was a junior manager at the mentioned company, the reference is thus from individual experience.
[82] Schneider & Enste 2002, 1; 2

can lead to whistle blowing by employees and secondly, the conditions that are conducive to fraud are similarly conducive to whistle blowing. Foremost amongst these conditions are unethical business practices and an authoritarian management style.

4.6) Conclusion.

In this chapter a number of different issues have been addressed, all tied together by their individual contributions to the study of internal corporate culture. Firstly, it was show that virtue ethics can be utilised to understand the public's perception of a company's character, as derived from the company's internal culture.

Central to this issue is the manner in which a company views its relationship with society. The 'old company' paradigm, perceived of the company as an entity totally distinct from society, which is only intent on profit maximisation. In a break with this position, the company is increasingly viewed as rooted within society, a view which implies that corporations have certain responsibilities towards society. Consequently, companies can reasonably be expected not to transgress against the rights of their employees and customers. Human rights were therefore also addressed in this chapter, focusing on the rights of employees, but also paying attention to other related issues.

Finally, whistle blowing and fraud were examined within the context of corporate culture. In both instances, it was found that ethically questionable business practices play a role in causing these two distinct, but connected, situations. This discussion then brought the central investigation of Chapter Four to a close, but also further exposed one of the last vestiges of the 'old company' paradigm, namely, authoritarian management.

Controlling a company with an iron hand, viewing lower level employees as enemies, and demanding silent obedience from all, can only spell disaster. This type of management clearly provides a fertile environment for not only whistle blowing, but paradoxically enough, also fraud. From previous chapters we have also seen that a willingness to share information, more egalitarian corporate structures, and a more liberal approach to delegation, can all aid in preventing these occurrences.[83] Managers should know not only how, but also when to delegate authority, since total managerial control does not necessarily ensure smooth sailing. In fact, total control would to a large extent stifle the development of juniors and may be ethically questionable on these grounds.[84]

When and how to delegate authority, along with more egalitarian corporate structures, are issues which go beyond the scope of corporate culture. These, and other, issues necessitate an investigation of corporate structure. It is this investigation, which will be the central theme of Chapter Five, in which related issues such as boards and ethical codes will be considered.

[83] This point will also be reaffirmed in Chapter Five.
[84] Helgesen 1995, 5

Case study:
Northeast Utilities*

Background.

In 1994 an engineer, working at Millstone no.1 nuclear power plant in New England, started to notice routine contraventions of the Nuclear Regulatory Commission's (NRC) safety regulations. The engineer, George Galatis, reported this to his superiors, who promptly informed him that he was mistaken. In an attempt to prove this, the company called in outside annalists, who ended up agreeing with Galatis, but to no avail. The company still refused to act or to report the problem to the NRC. Seeing that this was a dead-end, he informed George Betancourt, an engineer at Northeast Utilities. Northeast Utilities operates Millstone no. 1 and four other nuclear plants.[85] Betancourt agreed with Galatis' findings and was as a result reprimanded and intimidated by his employers. Firstly Betancourt was called in by Northeast's human resources manager, who informed him that he should become more of a team player, and then quoted the company's termination policy to him. Some weeks later Northeast's vice president of technical services, called Betancourt in to inform him that he was being reassigned, she is also quoted as saying: "We would like to help you George ... but you've got to start thinking company."[86]

Why was the company so upset with these two engineers? Because they were threatening the company's profit margins. Supervisors at Millstone no. 1 were loading the reactor's spent fuel pool beyond its design capacity, as a strategy for reducing down time and thus increasing profits. The potential dangers involved in this were great, but nobody at Northeast seemed to care. Finally Galatis decided to take action to prevent a possible catastrophe. Nearly two years after he first discovered the problem, Galatis went to the NRC with the facts. Shockingly, they new about it and

* This case study was compiled with information gained from: Shaw & Barry 2001, 363; 364; www.nrc.gov; www.rcf.usc.edu/~meshkati/pap1.html; www.greenpeaceusa.org/nuclear/risky_business.pdf

[85] These include Millstone no. 2 and 3.

[86] Shaw & Barry 2001, 363

were not interested. It turned out that some NRC officials were in fact in collusion with Northeast Utilities.

Finally Galatis sought legal help, and the matter was made public. With the media attention (*Time Magazine* amongst others), came the scrutiny of politicians and finally action. The NRC was forced to concede that all was not as it should be and Millstone no. 1 was closed down, pending review.

The aftermath included extended NRC involvement in all three Milestone plants, to an extent never seen before. In effect, Northeast Utilities was penalised through the large-scale loss of income associated with the closure of Millstone no. 1, and through the loss of executive control over the other two Millstone plants. The NRC was however also tainted by what had happened, and the new NRC chairman launched a sizable housecleaning initiative.

Unfortunately Northeast Utilities seems not to have learned much from the whole incident and remains on the receiving end of NRC investigations. Following the Millstone incident, the plants were finally sold to Dominion Nuclear Connecticut. Northeast Utilities again did not opt for transparency, and yet again their actions backfired.

Following the sale, the NRC fined Dominion for the loss of two nuclear fuel rods. After further investigation it was, however, found that Northeast had misplaced the rods before the sale and the penalty had to be paid by them. The two rods in question, were in fact never lost. What had been lost, or never existed in the first instance, were exact records of fuel rod storage. The two rods were eventually located in an off site storage facility, were they had been moved between 1985 and 1992.

Discussion.

Measured against the discussions presented in this and the previous chapter, one can only give Northeast a failing grade. The company not only wilfully contravened nuclear safety regulations for profit, it also conducted a calculated programme of intimidation against employees who did not agree with its actions. Furthermore, the company also undermined the federal commission set up to oversee their industry.

If nobody had listened to the two engineers and they left it at that, the results could have been fatal, as they were in the Challenger disaster.[87] Only on an exponentially larger scale, considering that the Chernobyl accident released more radiation than the Hiroshima and Nagasaki bombs combined. In this case, the whistle blowers may truly have saved the day.

Ethically correct actions on the side of Northeast Utilities would have definitely prevented the whole incident from taking place. Had the company not resorted to immoral and illegal actions for the sake of profit, it would still be business as usual. Instead, the company lost income from one of its plants and has been subjected to heightened federal regulation. Proving yet again that increased regulation results from corporate immorality.

Northeast Utilities had in one foul swoop managed to infringe on the rights of its employees, customers, and stakeholders. Not only did it endanger all the communities surrounding its plants, it also went out of its way to suppress that information. Unlike the previous case studies, this example has showcased corporate failure. A failure which, given the information presented throughout this chapter, could have been prevented.

The corporate failure in this instance is evident in three areas namely, management, corporate structure and corporate culture. Firstly, the management style at Northeast Utilities was authoritarian, employees simply had to adhere to what management decided and not question these decisions. This is perfectly illustrated by the manager who instructed George Betancourt to become more of a team player, after which the manager proceeded to quote the company's termination policy.

Secondly, when Galatis and Betancourt wanted to report their findings, there was no one to report to. This represents a structural failure, as Northeast's corporate structure is still geared towards serving an authoritarian management style. Consequently no structures enabling feedback of this nature are present.

[87] White 1993, 570

The third and final point concerns corporate culture at Northeast Utilities. The values encouraged at the company were short-term profit taking, obedience to the decisions taken by management and a total disregard for any other considerations. Corporate ethicality in this instance is at zero, which is why the company wilfully endangered not only their own employees but also the communities surrounding their operations. This also explains why the company saw whistle blowing as the problem, instead of a symptom of the real problem, which was managerial misconduct.

Chapter Five
Issues in corporate governance

5.1) Introduction.

As Part Three, of which this is the second chapter, deals with internal issues in business ethics, issues relating to all levels of management, corporate structure and corporate culture, make for obvious discussion material. In Chapter Four, broader issues relating to corporate culture were examined, which laid the ground work for the following discussion concerning more specific structural issues. As was set out in Section 4.1.1, the focus of this chapter will further the project of Part Three, which is to answer those aspects of the central question of this thesis referring to the internal aspects of corporations, specifically corporate structure and manner in which it has an ethical impact on other factors.

Working according to this methodology, Chapter Five will examine the board of directors, ethical codes, change and organisational learning, strategy and the management of corporate social responsibility programmes. A further central issues, which will be viewed under a number of these headings, is good corporate governance. Under the listed headings, structural concerns will be examined in order to ascertain their ethical impact, from which their role in facing the challenges of globalisation in an ethically correct manner, can be inferred.

Connected to this shift in focus is all the preceding work done in Parts One and Two, in particular, the possibility of a positive connection between ethicality and profit, as established in Chapter One. Since it has already been shown, that companies can actually benefit financially from acting in an ethically correct fashion, the argument will not be redeveloped here, but merely referred to.

By acting in an ethically aware manner without being forced to do so, companies can also prevent the implementation of stricter government regulation. Unfortunately this line of thought has not yet gained full recognition in the global business environment, which is why one British survey found that government regulation and fear of prosecution still remain the most effective way of getting ethical issues on to the corporate agenda. Four out of every five executives questioned were of this opinion.[1] The reason for this may possibly be found in the heritage of contemporary business thinking and practice.

According to the business writer Stuart Crainer, contemporary business practices are to a large extent descendant from the 'machine age' of the nineteenth century.[2] This would account for the 'old company' paradigm's failure to deal with contemporary social and business trends. Crainer points out the dominant management principles of the nineteenth century, the most notable of which were: command and control, one right way, labour not human resources, and national instead of global thinking and functioning. Taking on a military model, management was exercised on people who had no channel through which to voice their own opinion. Instructions by management were also assumed to be right and beyond question. The workers in this situation were little more than biological machinery, seen as labour and not as human resources, employees, or, heaven forbid, stakeholders. This rigid system functioned without the contemporary international market forces, as the company focus in this time was singularly national.

The system presented by Crainer is vastly different from the current global economy, which brings with it a veritable plethora of new pressures and demands, which companies have to deal with. Nation states are also confronted with similar challenges, attributable to globalisation. With the associated increase in dependence on international trade, it is also in every country's best interest to attract investment from foreign countries and companies. As stated in Chapter One the inflow of foreign direct investment (FDI) into countries is hindered by high corruption and low transparency.[3] Thus countries with low accountability will find it more difficult to attract foreign investment. It is for these reasons that corporate governance has come to the fore: "*Corporate governance is concerned with holding the balance between economic and social goals and between individual and communal goals ... the aim is to align as nearly as possible the interests of individuals, corporations and society.*"[4]

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[1] Crowther 2000, 45
[2] Crainer 1996, 2; 3
[3] Zhao, Kim & Du 2003, 41
[4] Corporate Governance Overview (1999) by Sir Adrian Cadbury, a World Bank Report. As quoted by: King 2002, 7

Furthermore, Mervyn King, the chairman of the King Committee on Corporate Governance, maintains that Corporate Governance has now finally come into its own: "*If one looks at business today, it is safe to assume that the age of corporate governance has arrived. Events surrounding corporate scandals here and abroad have emphasised the importance of good corporate governance.*"[5]

Corporate governance thus, presents an ethically and legally attuned focus on the manner in which companies are run. Consequently, it provides government and society with a means of evaluating companies on factors that go beyond mere profitability. The King Commission on corporate governance identified the following seven characteristics of good corporate governance:[6]

1. **Discipline.** This is the commitment by senior managers to act in a manner that is universally understood as being proper.
2. **Transparency.** The level of ease or difficulty, with which an outsider can make meaningful judgments concerning a company's operations, as this would indicate the willingness of a company to make information available.
3. **Independence.** The prevention of conflicts of interest.
4. **Accountability.** Those, within a company, who take and implement decisions need to be held accountable.
5. **Responsibility.** This pertains to management, as far as it is required that management would both steer the company down the right path and accept punishment for failing to do so.
6. **Fairness.** The company must be set up in such a way as to consider the needs of all legitimate stakeholders.
7. **Social responsibility.** The company must respond to social and ethical issues.

What makes the issue of good corporate governance all the more relevant for the contemporary marketplace is the stabilising and reassuring effect that it can have. Opposed to the constant change and uncertainty associated with globalisation. The reassurance that good standards of governance afford to investors is of great value, for both the company and the investors. Thus corporate governance provides yet another

[5] King 2003, 8
[6] King 2002, 11; 12

example of ethically sound business practices, which generate sustainable financial rewards.[7] In this instance, by providing the type of internal stability and consistency that promotes investment, and works to decrease staff turnover. This argument can also be applied to the discussion concerning whistle blowing and fraud, presented in the previous chapter.

Corporate governance is of clear importance to this chapter, but instead of further discussing it in isolation, it will be contextualised by means of reference to the board, due to the board's position as chief management body within a company.

5.2) The board.

The board of directors are directly accountable to shareholders and represent the highest level of authority and responsibility within a company. Chief amongst the responsibilities are the appointment of senior management, acting on shareholder interests, determining corporate policy and guiding corporate strategy.[8] Thus, the final responsibility for corporate governance issues rests with the board: "*The board is the focal point of the corporate governance system. It is ultimately accountable and responsible for the performance and affairs of the company.*"[9]

This in short means that the board is responsible for giving direction and goals to the company, on all levels. The final goal in the globalised economy being the achievement of a balancing act. That is to say, balance between the short-term goals of profitability and competitiveness, and the long-term goals of sustainability and consistency.[10] Which represents a clear break with the 'old company' paradigm, and thus implies change. To adequately address the challenges of globalisation, corporate change is necessary. Change that can only be implemented from the top down. This is due to directors representing "*the heart, mind and soul of [the] corporate citizen*".[11]

In Chapter Three the concept of social and environmental reporting, also called triple bottom-line reporting, was discussed. The importance of such reporting, in the light of

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[7] Armstrong 2003, 11
[8] Kroon 1995, 17 – 19; 138; 139
[9] King 2002, 22
[10] Khoza 2003, 18
[11] King 2003, 8

new investor demands and the standards of good corporate governance, is obvious. Not presenting an adequate triple bottom-line report, therefore, represents a failure on the part of the board.[12]

In the previous chapter it was show, that a move towards increased ethical awareness within a company, has to be implemented from the top down and must be true change as opposed to, purely artificial compliance with legislation, cosmetic changes to appease stakeholders, or mere lip service. Reuel Khoza, president of the Institute of Directors, describes mere compliance as the tick box approach: "*One of the fundamental challenges that still remain is the need to move from a tick box approach to compliance to one that is embedded in true commitment – substance over form.*"[13] Since the tick box approach entails mere compliance, enforced on a secondary level, it can be seen as related to the ethical checklist approach.[14] Similarly, the tick box approach does not do justice to the concerns that lead to its implementation. The 2002 Business Ethics South Africa (BESA) study also found that there is, based on their own empirical findings, almost no statistical correlation between increased technical compliance and increased ethicality within a corporation's culture. Thus, mere formal compliance entails little true progress.[15]

A company that employs such an approach to triple bottom-line reporting, or corporate ethicality in general, has failed to address the relevant issues. The company will thus retain an unchanged internal culture, which may very well contain all the conditions conducive to both fraud and whistle blowing.[16] The most notable of these conditions being authoritarian management, which was the standard at Enron and WorldCom, both of which had been brought down by corruption and mismanagement at the highest levels.[17]

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[12] Khoza 2003, 18
[13] Khoza 2003, 20
[14] Discussed in Chapter Three.
[15] Landman, Punt & Painter-Morland 2002, 7
[16] As stated in Chapter Four, this thesis views whistle blowing in a positive light, but not so the corporate conditions which lead to it. These conditions are the same that encourage the perpetration of fraud, and are inherently connected to an unfavourable corporate environment.
[17] Armstrong 2003, 10

In practice, companies are becoming more attuned to these facts. A South African study conducted in 2000, found that the majority of companies examined had moved away from an authoritarian culture. Instead corporate culture had become task orientated, with the central focus being on skills and not authority.[18] This is directly linked to the view that the contemporary value of an employee lies not in his or her experience, or tenure with the company, but rather in the employee's knowledge.

To counteract the conditions that led to the Enron collapse, good corporate governance principles need to be in place at every level of the company. Furthermore, formal structures alone are not sufficient and the company also needs a substantial change. That is a change in corporate culture, towards an open and trusting environment, directed by the board and focused on dealing with problems instead of hiding them. To initiate change on a substantial level, the following five strategies provide a sound point of departure:[19]

1. *Create a climate of trust and candour.*
2. *Foster a culture of open dissent.*
3. *Utilise a fluid portfolio of roles.*
4. *Ensure individual accountability.*
5. *Evaluate the board's performance.*

The creation of a climate of trust and candour, by implication, will allow employees greater freedom of expression. The direct benefits associated with such a move, were briefly discussed in Chapter Four in relations to the work of Abraham Maslow, but there are also other implications. A climate of trust and candour, which also allows for open dissent, will not only encourage the formation of new webs through increased staff contact across levels, it will similarly aid in advancing the 'water cooler factor'.[20]

The third point, a fluid portfolio of roles for the board, also exemplifies the inherent principles of web structures and represents a major break with the 'old company' paradigm'. This break manifests itself in a new approach to the issues of information

[18] Struwig & Smith 2000, 320
[19] King 2003, 8
[20] Both the 'water cooler factor' and web structures are discussed in Section 5.5.1. Web structures were introduced in Chapter One.

sharing, egalitarian decision making and the undermining of authoritarianism. These three changes occur once a company moves away from the traditional corporate structure, which awards a fixed job description and level of power to any employee, manager or official.

The fourth and fifth points are inherently linked, since accountability would be meaningless without some form of evaluation or oversight. As even the board would, through evaluation, be subject to oversight and penalty should they fail in their duties, accountability at the highest level is enforced. Furthermore, individual accountability and continued evaluation, coupled with a flexible approach to portfolios and positions, make an authoritarian management style functionally untenable, as the distinction between who is in charge and who not becomes blurred.

The implementation of such strategies by the board, to which they themselves are also subjected, exemplifies the notion of substantial change. The message that the board sends out by doing so, is one of integrity in all their actions.[21] The board thus, acts to change the company, while simultaneously sharing the experience of said change with all employees.

Guiding the company, both in its financial and other endeavours, is however not just done by means of board issued directives. Instead the day to day business of the company takes place without the board's supervision. That is to say, employees are not directly under the control of the board, instead there are various levels of management involved. The essential problem with this common situation being, that the guidance of the board my not filter through all the corporate levels. Counteracting this situation is the goal of explicit policy formation, by means of a corporate code. Such a code will include the company's essential principles and will aim to regulate conduct at all levels. It is these codes which will be discussed in the following section under the heading of ethical codes.

[21] Moyo & Sparks 2003, 27

5.3) Ethical codes.

A primary problem when dealing with corporate codes is the absence of a standardised approach, consequently, even the titles of codes vary from one company to the next. To facilitate a proper discussion of the issue a formal definition will be used here, which will also establish a more precise position for each of the most commonly used terms. These terms are: code of ethics, code of conduct and value or mission statement. Of these, a code of ethics is the primary document, with the others forming a part thereof.

A company's code of ethics, contains central standards determining ethical corporate and individual conduct. The code of ethics, through its focus, provides the board with a powerful governance tool. A tool which consists of two central elements:[22]

- **Values statement.** This, usually short, document articulates the company's values and is also known as a mission statement.
- **Code of conduct.** Longer and directed towards compliance, this document sets out rules of conduct which govern specific issues, such a conflict of interests.

Of the two constituent parts of a code of conduct, a value statement may be the shorter one but it is also more problematic. One rather inventive way of describing the importance and complexity of the document is to refer to it as a living entity, which is an apt description since it serves to breathe life into the company. The document has to accomplish this lofty goal by addressing two main issues.

A values statement should firstly, explicate the company's vision and intent in such a manner as to inspire employees to commit to these goals. Secondly, if the values statement is successful, those who read it should be able to answer the following four questions about the company:[23]

1. *Who are we?*
2. *What do we do?*
3. *For whom do we do it?*
4. *Why do we do it?*

[22] Landman, Punt & Painter-Morland 2002, iii
[23] Wall, Sobol & Solum 1999, 33 – 34

The code of conduct on the other hand, sets out guiding principles, in order to direct the manner in which employees interact with one another and customers. The code is very precise and lists not only actions to be taken and avoided, but also what is to be done in case of a transgression. Since the code is so specific it also tends to be rather lengthy and possibly difficult to remember.[24] Therefore, it is also imperative that the employer take steps to make the code more readily available, such as a website posting and the circulation of a number of office copies.

The implementation of a code of ethics, including both parts, does however not ensure that all will function as it is supposed to, due mainly to two factors. The first is concerned with external challenges, while the second concerns the measure to which the code it self can be adapted. On the first count, ethical codes should be able to stand up to external hindrances, such as ignorance, impatience and greed.[25] The manner in which the code deals with these problems will vary from one code to the next, but the necessity is universal.

Secondly, implementing a code does not imply that it is complete and may not be changed. A code must be focused on the present corporate condition in a realistic fashion, as such, a code can become outdated and would need to be changed. The code must also be open to dissenting voices. Stated differently, a code should be open to question, otherwise it could impede corporate functioning on both the cultural and structural levels.[26] The exact mechanisms needed to comply with both these points will vary from one code and company to the next. What is universal though, is the requirement that the mechanisms used must themselves satisfy both concerns. Hence the mechanisms must not only be applicable to current corporate conditions, but they should also be open to criticism.

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[24] Louw 1998, 35
[25] Kroon 1995, 98
[26] Louw 1998, 44; 46

Setting up an ethical code is not the only available option when it comes to corporate ethical strategies, but whatever form such a strategy takes it must be realistic and effective. If it is not, the price paid may be that of government regulation.[27]

External pressures are however not the only reason why a company should have a well thought-out and correctly implemented ethical strategy. People who function within a certain organisation gradually internalise that organisation's values and principles. Thus one can conclude that if unethical behaviour becomes institutionalised within an organisation, the people who function within that organisation will also start to act within the bounds of such behaviour.[28] The difference though, is that the organisation as a whole may have been acting unethically towards society while members of that organisation may act unethically both internally and externally, possibly even defrauding the organisation or taking other retaliatory steps, as was discussed in Chapter Four. Therefore a culture of ethicality is of the utmost importance. The institutionalisation of such a culture by means of a code of ethics, thus represents a logical approach. This also reaffirms the close bond between the structural and cultural elements of a company.

A further point concerning the nature of ethical codes, is that they are not only found inside specific companies, they may also be used to set the standards of practice in a given profession such as engineering. Such codes have been described as lying somewhere between law and etiquette.[29] If however, a code is not enforceable in any way, it does place a question mark behind the code's effectiveness. Within a single company, adherence to the code can of course be included in an employee's contract.

The level to which employees are familiar with their company's code of ethics, represents another area of concern. If employees are not aware of it, or of its contents, then the code has no impact on corporate conduct. Conversely, in an effort to maximise the effectiveness of the code some companies not only circulate it internally, but also externally.[30]

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[27] Solomon 1994, 36
[28] Luban, Strudler & Wasserman 1992, 44
[29] Shaw & Barry 2001, 8
[30] Landman, Punt & Painter-Morland 2002, 9; 10

There are also some dangers attached to codes of ethics, but these are not what exponents of the 'old company' might expect them to be. The biggest danger associated with codes is that they are not always complete, which means that some inappropriate activities may not be addressed or that some employee rights may not be adequately protected. To guard against such possibilities, codes of ethics need to be precise and properly adapted to the context (country, industry etc.), within which they will be applied.[31] A second possible danger originates from viewing the code as near sacrosanct. If a code is rigid and untouchable, it will eventually become an obstacle to the day to day functioning of the company, as the conditions under which the company function are constantly changing. For this reason, a balance must be achieved between stability and adaptation, which is clearly easier said than done.

The exact formulation of a code of ethics may vary from one company to the next, but the desired end result remains the same. That is to guide corporate conduct and culture, in the face of an ever changing environment.

5.4) Change in the corporate context.

5.4.1) Change in general.

The concept of globalisation was introduced in Chapter One. The most prominent feature of the phenomenon being, massive change in international relations relating to culture, commerce and politics. This change is sustained by new technologies such as aeroplanes, satellites, the Internet, etc. All of which serve to bring the global population closer to one another, which in turn fuels further globalisation.[32] Change is however not only an external element, in order to deal with external change the company itself must change. Responding to external change and effecting internal change, is consequently a central concern in business management. The ability to change and adapt, has as a result become a requirement for corporate growth and even survival.[33] Therein, one can also find a direct connection between change and corporate governance.

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[31] Madelin, Pitton, Van den Bos 2001, 22
[32] Archibugi & Iammarino 2001, 111
[33] Maira & Scott-Morgan 1997, 1

From the corporate perspective, the external changes that impact on companies can be divided into three categories, namely: economic, technological, and social change.[34] Firstly, economic change is not only the result of local conditions such as interest rates or the price of transport. Since global factors impact directly on the local conditions, such as the situation in the Middle East affecting the local oil price, companies that only have national operations are also affected. Economic change is therefore continual and remains an issue for all companies irrespective of their size. Technological change is in some respects easier to deal with than economical change. Computers and mobile technologies may impact directly on the market and how interaction takes place, but it lacks the boom-bust cycle of economic change. Lastly, social change refers to fluctuations in the make up and needs of society.

Dealing with change in the corporate context is not only a reactive matter, but also a matter of strategies that plan for external, and advance internal, change. In particular, the advancement of internal change can assist in providing a company with an edge over its competitors.[35] The company's formal dealings with change, and other factors, can be divided into two phases. A planning phase followed by an implementation phase.

One way of accelerating the rate of corporate change, is by involving more people in the planning phase. At face value this seems to be incorrect as the more people are involved in a decision making process, the longer one would expect that process to take. That may very well also be the case, but deciding on the changes to be made is only a small part of the process, the crux of the issue is the speedy implementation of decisions. It is in the implementation phase, that great rewards can be gained from the larger pool of participants during the decision making process, as people generally support what they create. Thus decisions will be implemented much quicker than they would have been if some staff members were opposed to them.[36] Which yet again shows the importance of proper stakeholder engagement, even on internal matters.

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[34] Kroon 1995, 137
[35] Maira & Scott-Morgan 1997, 1
[36] McNulty 2002, 40

Strategies such as these assist companies in better dealing with change, thus also aiding the company's overall sustainability. Change in the corporate environment is, however, not necessarily dealt with easier just because it has become such an integral part of the context. Therefore, dealing with, and effecting change within corporations is an issue of critical importance to management.[37] Inefficiency in dealing with change, is however not limited to slow responses. Overdoing it and being held hostage by the concept, is also a very real possibility. Overvaluing change or forcing change for its own sake may be just as detrimental to a company, if not more so, than not keeping up to date with current developments.[38]

How companies deal with change, both internally and externally, holds direct implications for all stakeholders. With proper corporate governance systems in place, change can be to the advantage of all. Including those stakeholders with special needs, as is the case in South Africa. In countries with previously restrictive systems, such as South Africa, the effect is doubled. In *Business Strategy in a New South Africa*, Anthony Manning in 1991, pointed out a total of eight challenges to South African managers, they were the following: [39]

1. *Rapidly increasing competition from new and unexpected sources.*
2. *Changing demographics and psychographics.*
3. *New technology which is changing the bases of competition.*
4. *The new global economy.*
5. *The swing from manufacturing to services.*
6. *The new proliferation of corporate stakeholders.*
7. *Managing the new workforce, and coping with a shortage of skills.*
8. *The rapid rise of the green movement.*

In South Africa, the early 1990s represented a time when companies had to play catch-up with the rest of the world. Which is not to say that the rest of the world remained in a stationary position. The perpetually changing nature of the globalised economy has necessitated that companies become much more proficient at assimilating and utilising

[37] McNulty 2002, 32 – 34
[38] Eccles & Nohria 1992, 191 – 204
[39] Manning 1991, 31; 32

new information. Thus companies have literally had to learn how to learn, and in the process strategic thinking has become an exercise in adaptation.[40]

5.4.2) Organisational learning.

One of the best and most efficient ways of dealing with change, is by institutionalising it through a properly managed process of organisational learning. As an academic field of inquiry, organisational learning can be traced back to the 1960s work of Richard Cyert and James March. Since then organisational learning has grown exponentially under the influence of economics, information systems, sociology, psychology and other fields.[41]

With the advent of globalisation, the prospect of lifetime employment has come to an end. In its stead, workers are faced with the prospects of a lifetime of training and multiple changes in employment. This is primarily due to knowledge being established as the new global currency.[42] Hence, the value of employees lie in their knowledge and not in their experience. This underscores the importance of organisational learning, since it serves to ad value to the company and to the employee's experience of the company. The positive implications of which were shown in Chapter Four.

Three factors are of crucial importance when dealing with organisational learning. They are: the creation of knowledge, the preservation of said knowledge and the internal sharing of knowledge.[43] All of which are dependant on open and full communication within the company, which in turn needs to be promoted by top management, and reintroduces the issue of corporate governance.[44]

Knowledge must therefore, not only be created but also properly managed through the proper application of three mechanisms namely ability, motivation and opportunity. Individuals within an organisation should, firstly, not only have the ability to generate knowledge, but should also be able to correctly and efficiently share or store such

[40] Maira & Scott-Morgan 1997, 8
[41] Argote, McEvily & Reagans 2003, 571; 572
[42] Helgesen 1995, 11; A similar point was made earlier, in reference to an employee's knowledge being more important than his or her position within the company.
[43] Argote, McEvily & Reagans 2003, 573
[44] McNulty 2002, 37

knowledge. Secondly, if members of an organisation are not sufficiently motivated the internal transfer of knowledge breaks down. The third mechanism, opportunity, refers to the ease with which people can transfer knowledge. Thus if there is no contact between members then there will be no opportunity to transfer knowledge.[45] This point will be reiterated in Section 5.5.1 in reference to the 'water cooler effect,' which stresses the importance of multiple internal avenues of communication.

The importance of employees sharing knowledge cannot be overemphasised, as this serves not only the goal of corporate learning, but it also assists in the retention of knowledge by spreading such knowledge across the company.[46] Measuring this value in monetary terms is however, another matter altogether.

The true value of properly managed organisational learning, cannot be given an exact monetary value. This is because "*some costs and lost revenue are invisible, for example, it is difficult to assess the value of any contracts lost or the number of new customers the organisation has failed to attract because of slow and inadequate learning about what is happening in the market place*".[47]

This lack of quantification, obviously does not detract from the importance of organisational learning.[48] As a matter of fact, many theorists view corporate learning and the associated management of knowledge, as the most valuable economic resources that a company can possess.[49] So for instance, the lack of learning at Northeast Utilities clearly contributed to its continuing problems.

The last point on organisational learning comes from Shell, not for how they learned, but for what they learned. Shell launched an investigation to determine how successful firms have coped with change over an extended period of time. Their initial findings revolved around the strategies that leading firms adopted during the 1970s. It was however decided that they had to look at firms with exceptionally long histories. Hence, they examined the practices of 40 firms that have existed for more than a

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[45] Argote, McEvily & Reagans 2003, 575
[46] Crainer 1996, 194; 195
[47] Sadler 2002, 238
[48] Kroon 1995, 516
[49] Sadler 2002, 232

century. The oldest of which was a Swedish company named Stora, with a 700 year history. What all these companies had in common was a strong sense of identity, active community involvement and a willingness to experiment without ever going to the extent of betting the proverbial farm.[50]

5.5) Corporate strategy.

5.5.1) Strategy and structure.

Corporate strategy represents the point at which change, corporate learning and management intersect. Management have to plan for the company's future, taking into account external pressures such as those associated with globalisation, whilst working within the boundaries set by the board and the company's code of ethics.[51] The four sections preceding this discussion, thus, all contribute to the background against which corporate strategy has to be formulated. Consequently, the central discussion of this section will focus on ethical, societal, and to a lesser extent psychological issues, viewing the manner in which these issues affect corporate strategy, corporate structure and risk management.

All the varying new economic factors that companies have to come to terms with, are also interrelated to a certain extent. One such connection, according to Andrew Wilson, director of the Ashridge Centre for Business and Society, is the influence of increased human rights awareness on corporate practice. Wilson states that in 1970 there was 7000 companies conducting business internationally, by the year 2000 this number had grown to 50000. Coinciding with this increased global corporate presence, is both a heightened awareness of human rights and a marked decline in the power of national governments.[52] The net result of which is that companies are assigned new social and environmental responsibilities, which in turn requires a large amount of change and inventiveness in corporate strategy.

The formulation of a corporate strategy, implies the making of decisions based on current information, with a view to the future profitability and sustainability. Associated with strategy formulation, or a change in strategy, is the setting of goals

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[50] Maira & Scott-Morgan 1997, 12
[51] Kroon 1995, 113 – 115
[52] Wilson 2001, 6

and the allocation of resources for the achievement of goals. The allocation of resources is however a political issue, since resources are finite, it involves supplying one or more groups and withholding from others. Hence there are also some inherent ethical implications. A widely used strategy for making such a decision, is the conducting of a needs assessment. The political nature of the decision that has to be made, however, complicates the needs assessment process. Due to the fact that corporate personnel who will be affected by the reallocation of resources, are usually involved in the needs assessment process. To overcome this and work towards a truly objective assessment, many companies make use of outside consultants to lead or conduct the assessment. Finally, the assessment is usually divided into three central phases:[53]

1. **Phase 1: Preassessment.** During this phases a needs assessor is selected to lead the assessment committee. After which the rest of the committee is selected in such a manner as to provide the committee with a balanced skills and knowledge base. Procedural requirements are also determined.
2. **Phase 2: Assessment.** Phase 1 is reviewed and adjustments made where necessary. The assessment itself is then carried out.
3. **Phase 3: Postassessment.** A plan of action is formulated, on the basis of the information provided by phase 2. This would involve the establishment of a priority list, explicitly prioritising certain needs over others.

Needs assessments conducted in this way, do not only provide the company with the opportunity to conduct proper stakeholder engagement, it also aids the company in making a fair and equitable decision. It could also assist in explicating the true value of CSR projects, that is if the community's needs are also brought into the equation. The process is, nonetheless, not a once off deal. Change has become the only true constant, thus requiring companies to continually adapt. Globalisation in general coupled with more specific issues, such as technological advances and the short lifecycles of products, have changed business forever. This has necessitated changes in corporate strategy to cope with the new conditions, including foreign joint ventures and strategic alliances.[54]

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[53] Altschuld & Witkin 2000, 18 – 40
[54] Tjosvold & Tjosvold 1995, 65

Globalisation is a clear and dominant factor in contemporary corporate strategy. So, for instance, Ford and General Motors (GM), both had a vision of building a world car. A car that could be sold globally, with exactly the same specifications. This vision has been destroyed, ironically enough, by globalisation.[55] Contrary to what may have been expected, globalisation did not result in globalised taste. Instead, individualism has become the global norm and with it individual taste.[56] This is not to say that certain cars aren't extremely popular, just that this popularity is nowhere near the scale that Ford and GM had hoped for. The necessary condition for the fruition of Ford and GM's plan, is the development of a truly singular world market. Such an occurrence does, however, not appear to be very likely: "[*W*]*e believe that the real economy, even though it will be transformed, will be enormously rich and diverse, with separate markets for goods and services in nation after nation. To some degree this is self-evident. Even in single national markets like the United States, where people share a common language, common national laws, and common media, there are enormous variations in demand patterns in different cities, states, and regions.*"[57]

What makes the previous quote all the more significant is the source. Rather than emanating from literature warning against the possible dangers of globalisation and capitalism, it comes from a book entitled *Market Unbound, Unleashing Global Capitalism*. The book's cover features, what at first glance appears to be a modernised version of Atlas holding the Earth. The reality is somewhat different, though. The Earth is in fact resting on a pedestal behind 'Atlas', who turns out to be holding a banner with the words, Unleashing Global Capitalism, printed on it.

Thus, globalisation and associated factors, have greatly impacted on the formulation of corporate strategies, to the point of one wondering whether it is at all possible to plan in such a rapidly changing environment. The central problem being, that the power to make decisions had traditionally been located at the top managerial levels. Which meant that response times were slow, since all problems had to be referred to senior personnel, instead of being dealt with as they arose. In an attempt to address this, corporate strategy has started to focus on the organisational structure of

[55] Helgesen 1995, 14
[56] Individualism is of course not equally well received in all societies, but the religious or other norms which oppose it would also have worked against globalised taste.
[57] Bryan & Farrell 1996, 166

companies. The answer that this shift in focus provides, is a devolution of corporate power. With web structures providing an excellent example of this.[58] Thus, a move away from the strict corporate hierarchy and construction lines of the industrial era was conceptualised, and in many cases made a reality.

Even Ford, the inventors of the construction line, have moved beyond it by organising shop floor workers into groups, with the power to make and act on their own product quality decisions. Such groups also limit the repetitive nature of shop floor workers' jobs.[59] Sally Helgesen refers to this type of devolution of managerial power as 'empowering the front lines'.[60]

The importance of ethically correct corporate actions for the bottom-line, has been stated throughout this thesis. It is of vital importance that ethicality, coupled with a long-term focus, maintains a position of importance both within the boardroom and corporate strategy. Sir Robert Wilson of Rio Tinto described the issue as follows: " ... *there is more to business than simply short-term profit. Indeed, in complex and sensitive businesses, such as those in the extractive industries, the creation of long-term shareholder wealth is incompatible with a purely near-term profit focus.*"[61] This statement also ties in with Sadler's definition of management "*as the function of balancing multiple goals*".[62]

The strategies that companies implement must, as is evident from the preceding discussion, not only contend with internal and external changes, it must also contend with the interests of shareholders and other stakeholders, whilst still keeping within the bounds of good corporate governance. While there is a conceptual bond between stakeholder engagement and other aspects of good corporate governance, the human factor still remains. Stated differently, for all the checks and balances in the world, individuals still remain capable of making errors in judgement, and it is individuals who have to decide on corporate strategy.

[58] Webs were introduced in Chapter One.
[59] Helgesen 1995, 34; 35
[60] Helgesen 1995, 48
[61] Holliday, Schmidheiny & Watts 2002, 106
[62] Sadler 2002,132

On a daily basis, and without being aware of it, everybody makes biased decisions. The predominant reason for this being, the all too human tendency to always act and even perceive things, in one's own interest. One American study used role play to investigate bias, including the extent to which people are aware of their own bias. Two people were assigned opposing positions in a court case and each provided with exactly the same information regarding the case. They were then asked to predict the outcome of the case based on the information given them, and without fail the participants predicted an outcome in their own favour. In an attempt to neutralise this clear bias, researchers informed participants of the results and asked for their input on the matter. The participants for their part all concluded that there was clear bias, but that the opposing party was biased and not themselves.[63]

Unknowingly making biased decisions is therefore a very real possibility, in corporate management. On the up side, though, it means that bias can be changed by redefining the bounds of self-interest. Which in turn provides the corporate manager with a powerful new motivational tool. Which may even extend beyond the scope of motivating employees, to attracting outside capital. This is due to investors acting in their own interest, meaning that if they believe in a company they will buy into it.[64] The possible implications for capital investments are sizable. Major long-term investments can affect a firm's cash flow for years, and as such investment decisions must be based on the best available information.[65] Information which investors invariably gain, directly or indirectly, from corporate reports.

Yet again, this points to the importance of committing more people and resources to planning and strategy formulation. Needs assessments are, however, not the only way to open up avenues of communication. Avenues of communication do not have to be structured or formal to be successful, they must however be fully integrated into corporate culture.[66] Thus a systemic approach has to be implemented across the board to be successful.

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[63] Bazerman, Loewenstein & Moore 2002, 98
[64] The word, believe, is used to reflect the effect on stakeholder opinion, resultant from proper triple bottom-line reporting.
[65] Lumijärvi 1998; 36
[66] Helgesen 1995, 4

Communication has featured prominently in a number of the discussions thus far, most notably in connection with stakeholder engagement. The internal benefits of open communication have also been mentioned in relation to corporate learning. The key being communication between employees. Traditionally, unstructured communication between employees has been seen as idle chit chat, or a waste of time. Newer ways of understanding the very being of a company, invert this position by seeing companies as: "*networks of relationships in which 'connected selves' form webs of ongoing personal relationships with other 'connected selves'*".[67] This means that there is an aspect of caring for fellow employees involved in corporate culture, which can contribute to open and friendly communication. Such communication is in fact beneficial, since it encourages web formation.

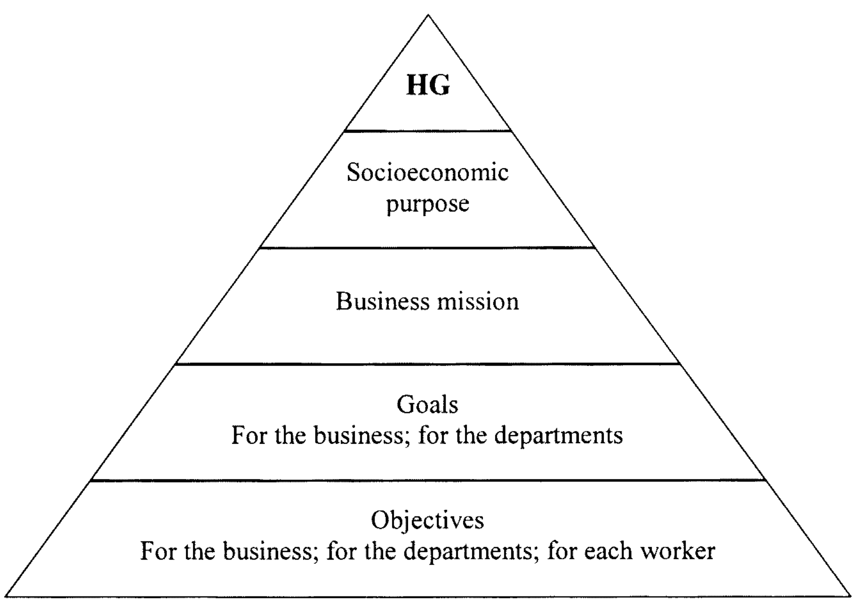
As we have seen, web formation can be extremely advantageous for any conceivable corporate activity. It is therefore no surprise that some companies are actively encouraging casual interaction between employees, especially people on different levels. A successful strategy in this regard, is using what Sally Helgesen calls the 'water cooler factor'. Places, such as water coolers, where staff of all levels meet each other by chance, can be used to encourage web forming by making interaction easier. This can be achieved by, for instance, supplying seating and food and thus encouraging casual interaction.[68]

Web structures, through their flat loose formation, are ideal vessels for implementing such strategies. The 'water cooler effect' is not only instrumental in the formation of new connections within a web, but also assist in enhancing connectedness, both amongst employees and between employees and the company. The heightened connection between employees and the company, in conjunction with the greater input of individual employees in a web system, can be characterised as 'emancipation capitalism', a characterisation underscored by the manner in which information flows within a web.[69] Since any member of the web is at any given time connected to many others of varying rank, it is near impossible to limit information to certain positions. Hence, information flows in a free and open manner, which serves to undermine the

[67] Velasquez 2002, 491
[68] Helgesen 1995, 255
[69] Helgesen 1995, 6; 24; 25

proverbial 'grape vine' and all that it entails.[70] It should be noted that companies, such as Intel, formally employing a web structure instead of a hierarchy, usually also motivate the dissemination of information. In so doing, they further undermine the grapevine and increase corporate cohesion through the sharing of knowledge.

Unfortunately webs, and other evolved forms of corporate structure, are not the norm when it comes to corporate structure and thinking. Even though, as we saw in Section 5.2, corporations are starting to operate in terms of skills and not authority, such operation may still carry the baggage of the old hierarchical system. As is evident from the following diagram depicting a hierarchy of goals (**HG**).[71]



There is a clear connection between this hierarchy and phase 3 of a needs assessment, which also endeavours to prioritise goals. Once the importance of goals, in reference to one another has been established, it is much easier to commit resources accordingly. With the most important goal receiving the most resources. The hierarchy may very well acknowledge social issues, but by the nature of the hierarchy, these issues are also undermined. Separating these different aspects of corporate

[70] Such as the insecurity that a lack of information may cause.
[71] Kroon 1995, 128

responsibility so drastically, totally disavows their inherent connectedness. Thus undermining the company's ability to deal with, and plan for, these issues.

Seeing company goals in separation from those of employees, is also indicative of the 'old company's' animosity towards employees. This is not to say that needs assessments and prioritising is ineffective, just that its functionality is dependant on the process being conducted in an ethically conscientious manner.

Doing needs assessments, forming web structures, and other issues relating to corporate strategy, all have a common motivational factor, the management of risk. A central aspect throughout this thesis, has been the prevention of certain risks, but the importance of the topic warrants an individual discussion. Risk management as the ultimate goal, represents management's quest to ensure the continued sustainability and profitability of the company.

5.5.2) Risk management.

Since the issue of risk management is central to the continued existence of any company, the ultimate responsibility must lie with the board. It is thus, firstly, the board's responsibility to properly manage the risks that the company faces. To adequately deal with this responsibility, the board must not only make appropriate decisions, but there must also be open and accurate lines of communication to both the CEO and management.[72]

How a company deals with change can have an important impact on risk factors.[73] This is by far not the only implication, as almost every aspect of corporate conduct and culture can have a direct effect on risk. Because risk not only emanates from outside the company, but also from within. With internal fraud presenting one of the biggest risks, that can be addressed through sound ethical management and good corporate governance.[74] The potential influence of good corporate governance on risk management, can also be extended to issues outside of the company. Besides for

[72] Armstrong 2003, 10
[73] Maira & Scott-Morgan 1997, 275
[74] See Section 5.1 and Chapter Four.

addressing issues of governmental regulation, good corporate governance can also act to improve public perception of the company.

Moreover, potential investors are increasingly well informed concerning a company's ethical and governance record. A bad record in this regard can therefore result in additional risk for the company, in the form of limited available investors.[75] Similarly, a bad reputation can also negatively impact on the availability of customers, especially in the service industry.[76]

The obvious location of risk is in the future, risk management, therefore, deals with planning for the future based on the best available information.[77] Given this focus on the future, risk management seems to depend on a large amount of luck, as the future can hardly be predicted. In reality, however, this is not the case. One may not know with any degree of certainty what the Rand-Dollar exchange rate will be in six months, but certain other factors are known. Drawing on the discussions both in this chapter and the preceding one, three areas of interest can be identified, namely, corporate governance, corporate culture and corporate structure. Even though there is an obvious connection between these three areas, each has a valuable contribution to make towards risk management.

Firstly, good corporate governance guided by initiatives such as the King Report, impacts on both corporate structure and culture, in an attempt to positively influence corporate aspects in both spheres. The primary desired outcome of this influence is stability, which in this context is manifested in the following specific results, lower employee turnover, less government regulation and a positive public image for the company. As a result, risks associated with a lack of stability are greatly diminished and a company's prospects for long-term survival are enhanced.

In the second instance, corporate culture can play a significant role in determining a company's future. An unhealthy or ethically questionable culture such as overly authoritarian management, as was shown in Chapter Four, can in itself be a risk. To

[75] Holliday, Schmidheiny & Watts 2002, 110
[76] Liemandt 2003, 180; 181
[77] Kroon 1995, 114; 186

combat this, and other associated issues, corporate culture needs to be firmly grounded on an ethically sound structure. That is to say, ethicality must be advanced on every level of the company, thus positively influencing the corporate culture. The Ben&Jerry's case study provide an excellent example of this and of the associated advantages, both financial and otherwise. Furthermore, the role of corporate culture in preventing the conditions that are conducive to both fraud and whistle blowing, have already been established.

Lastly, corporate structure not only influences a company's culture, but also plays a major role in direct risk management. So for instance, the inclusion of a whistle blowing hotline or ethics officer in the corporate structure, can deal with the associated risk in a pre-emptive manner. Corporate structure also deals with the way in which a company functions, in this regard it has been shown that new forms of corporate structure, such as web structures, can assist in limiting risk. The ability of such structures to limit risk is located in their ability to move, instead of a hierarchy these structures are not rigidly defined. Consequently, people, resources and knowledge can be moved around at an increased pace, thus placing the company in a better position to deal with risks and challenges.

Since risk is a central aspect of corporate activity, failure remains a possibility, but failure due to corruption, a lack of skill and the absence of caring, is not acceptable. All these issues are addressed through good corporate governance, the reach of which extends much further than just the internal functioning of a company.[78] As we saw from the Ben&Jerry's case study, ethically sound management and good corporate governance, have huge potential external benefits. Particularly as far as the company's reputation is concerned. The importance thereof is clear from a recent study, which found that the CEOs of top British companies experience reputational concerns as the biggest risk facing their companies.[79]

Since so many issues contribute to corporate risk, it is significant that CEOs view reputation as such an important factor. Public perception has however been discussed in Chapters Two and Three and will not be explored here. Instead we will look at the

[78] King 2003, 8
[79] Armstrong 2003, 11

related issue of corporate social responsibility, in particular the management of CSR programmes.

5.6) Managing CSR programmes.

The effectiveness of CSR programmes can be undermined, as has been shown in Chapters One and Two, if a company has an excessively short-term focus. In such a case, all goals and rewards are determined on a quarterly or half yearly basis. It is impossible to account for long-term sustainability programmes, and associated goals, in such a short timeframe and they consequently fall by the wayside.[80] The first step in managing CSR programmes, therefore, requires a shift in the manner in which companies judge their performance. Representing yet another confluence of corporate strategy and change.

Corporate strategy, generally, starts with a business plan, including such aspects as a code of ethics, comprising of a mission statement and a description of the company's focus. When a company sets up a corporate social responsibility programme, it would do well to keep these statements of focus in mind. In so doing the CSR programme will take on issues which are relevant to the company, and so also to its stakeholders (including stockholders). By focusing on areas that the company have had experience with, they are able to add greater value to the project and avoid a situation of throwing money at a distant problem. With a link between a company's CSR activities and its core business, the company is also able to rely on its own resources, instead of bringing in outside help.[81] Thus companies should integrate CSR concerns into general strategy by doing the following:

1. *Focus on individuals, since CSR reaches out to all stakeholders but will be judged by its implications for individual employees, managers and citizens.*
2. *Determine a corporate legacy by instilling an ethic of education and learning and by instituting processes to foster this ethic.*
3. *Put employees first as the best assets and ambassadors of the business.*
4. *Know their neighbours, both in terms of their communities and in terms of their culture.*

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[80] Landman, Punt & Painter-Morland 2002, 23; 24

[81] Rockey 2002, 16

5. *Establish a system for keeping CSR debates and dialogues transparent and continuous.*
6. *Form smart partnerships, not for publicity or cover but to realise CSR goals.*
7. *Measure and account for what they do.*
8. *Report externally, but in ways that reach all stakeholders, not just those on their mailing list or on the internet.*[82]

These eight points bring together relevant aspects from previous discussions concerning cause related marketing, deep branding, social reporting and stakeholder engagement. In addition to these issues, the CSI Handbook[83] examines the following trends in South African CSR programmes:[84]

1. Focusing on fewer and larger projects.
2. Linking CSR programmes to national priorities.
3. Aligning CSR programmes to the nature of a company's business.
4. CSR programmes enhance the corporate image and brand.

Focusing on fewer and larger projects, holds significant implications for organisations and individuals who receive corporate funding. It means that small or localised programmes will not obtain funding, no matter how great their need may be. On the positive side, projects that do get funding are better funded and assisted and have the ability to achieve greater results for more people. A possible compromise would entail a company committing a certain percentage of its CSR budget to smaller programmes. It is however, doubtful if a full reversal of this trend will occur, considering the benefits large scale projects hold for companies, such as attracting more media attention and looking better on social reports.

The second point relates strongly to sustainability. If a company actively works to address national priorities, it is in fact contributing to improve the conditions under which it will have to operate in future. Addressing these priorities, can thus also be

[82] Holliday, Schmidheiny & Watts 2002, 103; 104
[83] The Handbook uses the term corporate social investment instead of corporate social responsibility programmes, the difference in nuance and implication is not significant enough to warrant a discussion here.
[84] Rockey 2002, 2 – 21

seen as an indirect way of dealing with future risk. Points three and four have already been discussed, both here and in Chapters Two and Three.

Taking such recommendations into consideration and formulation a CSR programme is, despite all the theoretical attention paid to it, not the end all and be all of what is at issue here. Managing a CSR programme does not end with the execution of the programme, it in fact never truly ends. Instead, execution is followed by feedback, reporting and evaluation, which is then utilised to upgrade and continue the programme. Reporting on CSR activities is of paramount importance, since it not only serves to advance transparency and accountability, but it is increasingly expected by both stockholders and other legitimate stakeholders.[85]

5.7) Conclusion.

Chapter Five, in its focus on corporate structure, has indirectly[86] highlighted two significant points. Firstly, there is an inherent and substantial bond between corporate culture and corporate structure. As such, changes in the one can effect or necessitate changes in the other. In the second instance, corporate structure, including corporate directives such as a code of ethics, has a major impact on both ethicality and corporate image. This is most markedly the case when viewing new forms of corporate structure, which not only constitute a break with the 'old company' paradigm, but also present corporations with new ways of dealing with the challenges of globalisation.

Changes of this nature also underscore the importance of good corporate governance, as it aids not only in directing the company, reducing risk and giving substance to a positive corporate culture, it also equips companies for dealing with the globalised economy. A statement which, almost, makes corporate governance sound like the contemporary equivalent of the alchemist's attempts at changing lead into gold. This is not the case, as corporate governance is qualified by the word good. In addition, it must also be understood that corporate governance is not a stable and unchanging set of rules, instead it provides companies with current guidelines, which the companies still have to translate into their own unique situations.

[85] Khoza 2003, 18
[86] Without always stating this explicitly.

The application of corporate governance principles, extends throughout the company and influences not only the company's structure, but also its culture. This also establishes the ethical importance of both corporate structure and strategy.

The advances in good corporate governance in South Africa, greatly influenced by the two King reports, have been heartening. There are however some remaining issues that need to be addressed, namely:[87]

1. *The limited independence of boards.*
2. *The continued propensity of following form over substance in regard to corporate governance standards.*
3. *Weak enforcement amongst a number of South Africa's regulatory agencies.*
4. *The level of passivity of many of our domestic institutional investors.*

The future, if good corporate governance is not successfully implemented, does not look all that attractive. Two possible scenarios present themselves. The first being a situation of total market disorder, with markets becoming ever more complex without the guidance of relevant standards and regulations. This would increase risk exponentially and negatively impact on the global economy, as investors and opportunities for growth become ever scarcer. The second possibility is that the gap left by good governance standard, will be filled by ever more restrictive legislation, attempting to prevent further Enron style collapses. The problem being, that such legislation may very well impede the growth of corporations, to the extent of stunting the global economy.[88]

It is clear then, that good corporate governance, is not only in the best interest of companies, but also of society as a whole. The concept of good corporate governance also ties in very well with the method in which this thesis approaches the issue of problem resolution, which is to say, it by and large aims to address problems in a proactive manner. Prevention is however never totally successful, especially not in an ever changing environment. To address this issue, Chapter Six will look at problem resolution techniques which are ethically based and have greater utility than traditional or checklist techniques. The focus of Chapter Six thus, is to examine

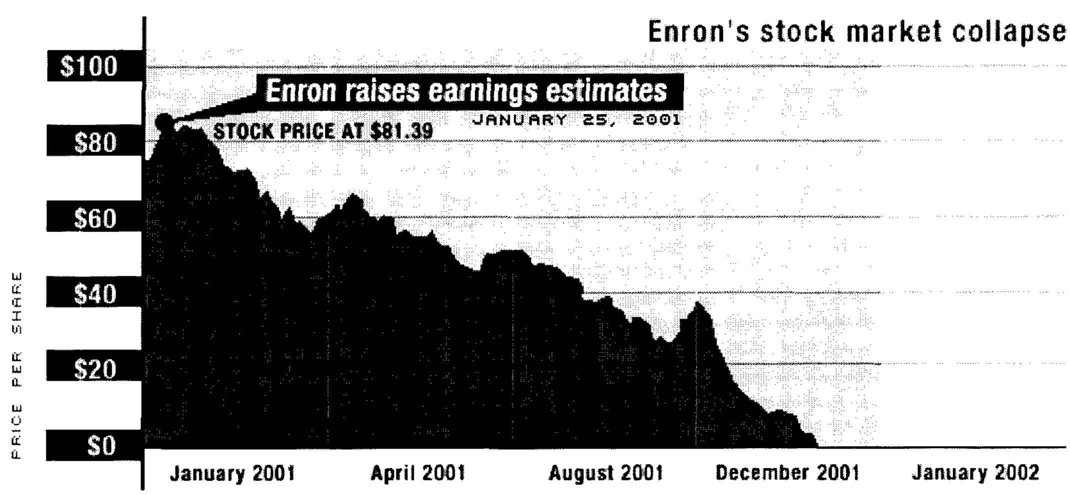
[87] Armstrong 2003, 11
[88] Dunn 2003, 13

techniques that can be used to resolve internal problems, which may not have been anticipated by other formal structures and directives, such as a code of conduct.

Case study:
Enron*

Background.

Enron was one of the largest American firms involved in the natural gas, fossil fuel, and other industries. Controlling billions of dollars worth of assets and widely viewed as one of the most innovative firms in America, its stock price reached $81.39 in January 2001. By December that year, however, the stocks were no longer traded and the company had gone bankrupt. In reference to Saddam Hussein's much loved phrase, Richard Horner calls the collapse of Enron, the mother of all corporate failures. This point is dramatically underscored by the following graph, which illustrates the fall in Enron's stock price during 2001.[89]



The problem at Enron was twofold. Firstly, Enron was the central entity in a network of affiliates, the finances of which were dependant on Enron having a strong stock price. The second problem was the utter lack of ethical awareness within Enron's top management structures, a problem which also extended to its business partners. "*I basically feel that Enron was a case of total moral bankruptcy. It was not just the company and its executives. It was not just the accountants. They had to get legal opinions from a law firm. They had to get derivatives from the banks and Wall Street*

* This case study was compiled with information gained from: King 2003, 8; Holliday, Schmidheiny & Watts. 2002, 78; 141; Horner 2003, 22 – 24; http://money.cnn.com/news/specials/enron; http://specials.ft.com/enron/FT3GIIYBNXC.html

[89] http://money.cnn.com/news/specials/enron

firms. One group alone could not have done it. The money was vast and the money was fast."[90]

The factors were, however, not totally separate. Much of Enron's complicated financial dealings were driven by a desire to falsely represent the company's finances. So, for instance, Enron would obtain a substantial loan, but report it as income at the financial year-end. The loan would then be moved off the books to one of Enron's many subsidiaries, before any repayments were made. Using this and other strategies, Enron overstated its income by $1.5 billion while understating its dept by $828 million. The underlying managerial motivation for these actions, was large performance based incentives and stock options. The better the company appeared to do, the more the stock was worth and the more money the executives could receive for their stocks.

One of the best explanations for what happened to Enron, can be found in the title of a Financial Times article which read: "*Enron ties itself up in knots, then falls over.*"[91] Enron ran an extensive programme aimed at increasing profitability and maintaining a good credit rating. The main function of this programme, being the creation of special project entities (SPE), which in truth were nothing more than places to hide things Enron did not want to account for. An SPE would function as an affiliated company with a specific focus, often in the field of financial services. Enron would initially finance the SPE by issuing stocks to it, following which, the SPE would attract additional external investment. At the same time Enron would move certain of its own projects or investments, which were not delivering, onto the books of its SPEs.[92] Consequently, Enron would appear to be in a considerably better position than it actually was.

The reference to moral bankruptcy is further underscored by the actions of Enron's board. Enron's code of ethics expressly forbade the appointment of current or former senior Enron personnel to senior positions in affiliated companies. On October the 11th 1999, the full board of Enron voted to waive the company's code of ethics, in

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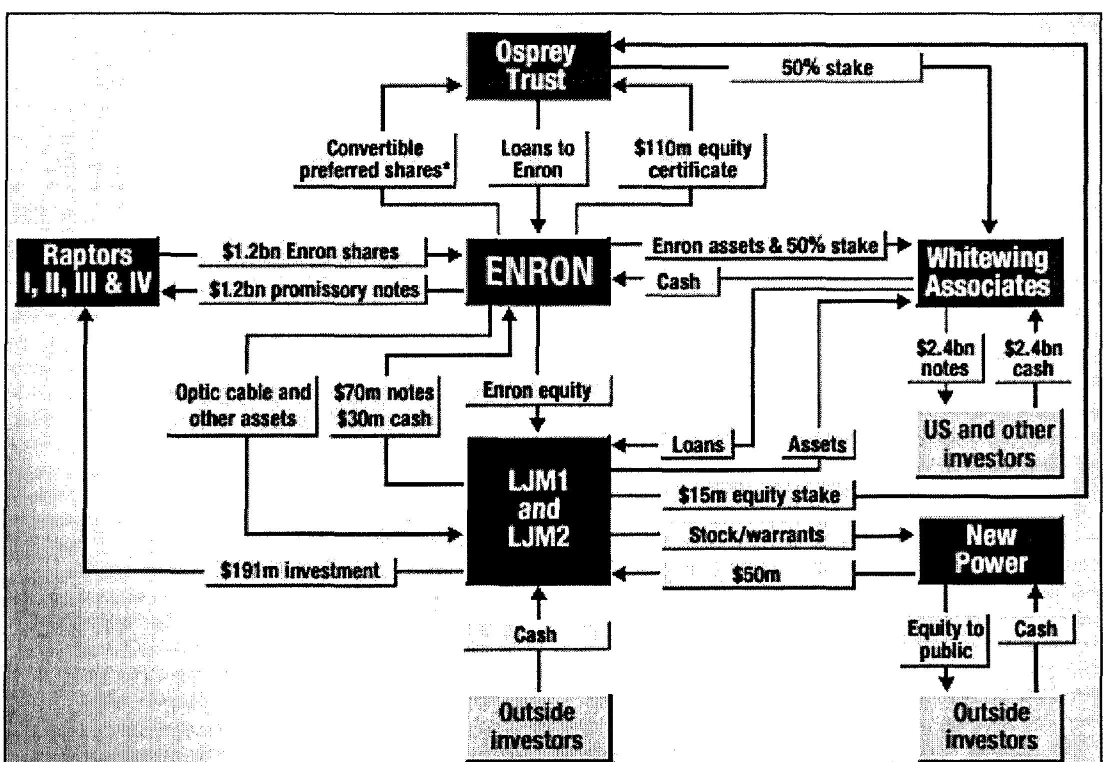
[90] M. Siebert, as quoted by Horner 2003, 22
[91] http://specials.ft.com/enron/FT3GIIYBNXC.html
[92] An abridged diagram of the SPE set up follows at the end of the background discussion.

order to appoint former chief financial officer Andrew Fastow as head of both LJM1 and LJM2 (both SPEs). Mr. Fastow's financial expertise was intended to attract further external investments to the two SPEs, but ultimately no amount of external financing proved able to fully sustain the two SPEs. This was largely due to the fact that almost all their dealings involved other SPEs, thus a web of reliance was formed.

The cornerstone of the SPE set-up was Enron stock, which provided the initial financing for the SPEs and on which they were largely dependant for solvency. If, however, Enron's stock was to decline, it would have to issue more stock to prop up the SPEs. Such large scale stock movements would not go unnoticed, though, and would lead to market insecurity driving the stock price down further. This situation became known as a toxic cycle and is exactly what eventually happened. When Enron finally filed for bankruptcy, its dept totalled nearly $40 billion.



Source: Simplified version based on company/partnership documents and filings

* Convertible to $50m common

Discussion.

The lack of ethicality amongst Enron's senior management, coupled with their short-term profit focus, led to large scale misinformation and a lack of transparency. All of which were instrumental in the company's eventual collapse. In their manic quest for inflated profits, any semblance of good corporate governance was left by the wayside, exemplified by the board overruling the code of ethics. With the principles of good corporate governance being neglected, management started acting only in their own interest, which would explain the multitude of managerial decisions and strategies that flouted the principles of risk management.

Subsequently, there was a vast rift between the company's internal reality and its outward appearance, which was dynamic and successful. Mervyn King explains this situation by means of reference to the behaviour of Enron's CEO. "*He was arrogant when he declined to speak to an authoritative business journal such as Fortune. He was arrogant when he declared in Davos, Switzerland that the company was the most innovative organisation in America. And he was arrogant when he said that Enron could commoditise and monetise anything from electrons to advertising space. Then there was excessive corporate and individual greed.*"[93]

This internal culture of greed was augmented by high levels of secrecy, which led to suspicion and the spread of rumours amongst employees who were out of the information loop. This was particularly the case with employees not directly involved with the SPEs, but who still worked in Enron's head office. Measured against the discussions in Chapter Five, one would be hard-pressed to find a single instance in which Enron did not fail dismally. The implications of Enron's collapse went much further, though.

In Chapter One we examined the 'old company's' operational myths, with one of them being that unethical action is not really serious. The Enron example once again shows this notion to be utterly incorrect. Besides for the pension and other funds of Enron's own employees, many of the main investors in both Enron and the SPEs were

[93] King 2003, 8

external pension funds, resulting in many retirees being left without an income. A further result of Enron's and other collapses, has been the introduction of stricter legislation. For the managers responsible there have also been repercussions, with a number of them having to face criminal charges.[94] Which might have come as a surprise to some, since corporate officials do enjoy a certain amount of legal protection, however, this protection is not unqualified.

The protection offered to corporate managers, no matter how senior, is limited. Not even directors have blanket protection. The business judgement rule, for instance, is intended to afford directors a measure of protection. "*Essentially, the rule protects directors against being held accountable for business decisions, however unwise they subsequently turn out to have been, if they were made on an informed basis, in good faith, and without any conflict of interest, and if the decision was rational at the time in all circumstances.*"[95] It is clear from the preceding discussion, though, that Enron's management did not qualify for protection on these grounds.

The last indicator that unethical actions can indeed have serious consequences, comes from Cliff Baxter: The former Enron vice-chairman committed suicide after the collapse of Enron and associated pension fund losses. All of which was totally preventable, had the principles of good corporate governance only been observed.

We end this discussion with a quote from Mervyn King on the nature of the relationship between profit and corporate governance: "*Finally, profit with intellectual honesty is the essence of good corporate governance.*"[96]

[94] In this regard, both Andrew Fastow and his wife have pled guilty to charges brought against them and now face prison terms. www.cnn.com
[95] King 2002, 70. The business judgment rule enjoys legal acceptance in America and other countries.
[96] King 2003, 8

Chapter Six
Problem resolution techniques

6.1) Introduction.

6.1.1) The need for a reactive chapter in a proactive thesis.

This chapter will consider problem resolution techniques and decision making, in order to gain a fuller understanding of the internal workings of companies as they move away from the 'old company' paradigm. Stated differently, this chapter will examine strategies for deal with ethically difficult situations. This will specifically aid in answering sections of the central question, relating to the internal means by which companies address new occurrences. Much has already been said about this subject in the preceding two chapters, but the focus there was on a proactive approach. Here, however, we will consider measures that are reactive in nature.

Even the most well formulated proactive strategy cannot account for every possible variable. It is therefore no surprise that the average manager spends roughly 20% of his/her time in conflict situations,[1] a statistic which would traditionally have been seen as boding ill for productivity. The contemporary position on conflict, however, contradicts this view. Conflict is no longer seen as inherently negative, instead conflict situations are seen as laden with both positive and negative possibilities.[2]

The older view, would have contended that conflict is nothing more than hostility and irrationality, and should as such be avoided. The psychological implications of forced conflict avoidance are, however, sizable. Avoiding conflict may lead to a host of psychological symptoms, including high rates of absenteeism, which eventually ends in high employee turnover.[3] Since conflict is a natural aspect of human behaviour, it needs to be addressed and not ignored. Consequently, a proactive approach aimed only at avoidance would prove to be insufficient, which is markedly the case when disputes have an ethical or moral base.

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[1] Kroon 1995, 395
[2] Hellreigel, Slocum & Woodman 2001, 295
[3] Kroon 1995, 397

To deal with this situation, Chapter Six will ruminate on a number of conflict and problem resolution strategies. Firstly considering standard (usually checklists) approaches, thereafter looking at a number of ethical theories[4] and the manner in which each resolves problems, resulting in the provision of an ethical alternative to the standard checklist approach.[5] The necessity for such an alternative is also clear if one considers the difficulty inherent in resolving, not just ordinary disputes, but disputes with an ethical or moral basis. Furthermore, the direction given by the ethical theories is also applicable to the process of decision making in general, consequently having greater utility than the checklist approach.

The ethical alternative has the added advantages of being less specific and less dependant on institutional measures for its implementation. Thus, removing the need for managerial intervention, required for most standard approaches.

After viewing the ethical approaches to the resolution of problems, the discussion will turn to two other related strategies, namely, situation mapping and the RIMS technique. Both of which provide a uniquely different approach to the issue of moral, and other, problem resolution.

This focus on moral problem resolution and moral decision making, represents the third and final aspect of internal corporate culture, which will be considered within this thesis. In Part Three we have, by means of its three chapters, moved from general issues to more specific issues, and now finally to strategies for dealing with matters that cannot be attended to in a proactive manner.

Before moving on with the discussion of these matters, one final distinction needs to be made. An obvious academic distinction can be made between the words dispute, problem and conflict. The focus of the following discussion is, however, solely on decision making and the resolution of disagreements[6] between people, parties or other

[4] Only the manner in which these theories deal with moral problem resolution will be considered. An example of how ethical approaches can be moulded into a checklist approach is presented in Appendix A. Such a step is not supported here and Appendix A only serves as an example.
[5] An example of the checklist approach can be found in Appendix D
[6] Predominantly focused on, but not limited to, moral decisions and disagreements.

entities, within the corporate context. As a result, no extensive distinction between the aforementioned terms would be needed within said context.

6.1.2) Problem resolution through an ethical approach.

The effects of globalisation are vast and the best or worst, depending on one's point of view, is most likely yet to come. This climate of change can in itself be a cause of conflict and difficulty, especially in large multinational firms. Such firms employ people from vastly different cultural, political and religious backgrounds, and these differences obviously lead to different situational responses. This does of course extend beyond the firm into everyday life. A full investigation of multiculturalism will, however, not be done here. Partly due to the word not being as strictly defined as some might think,[7] and partly because a discussion of problem resolution strategies will remain functional without considering such specific instances.

Moral problem solving, as discussed here, can be applied to both internal and external situations. Traditionally, dealing with problems on any level had only been seen as a function of management. Sadler's definition from Chapter Five also reminds one that management is "*the function of balancing multiple goals*".[8] This does of course not mean that non-managerial personnel are incapable of resolving certain issues for themselves. This point was also used to show that, under the principles of emancipation capitalism,[9] devolving some authority to lower level employees can have significant positive results. Strategies such as the RIMS technique, however, do require one person or authority to make a final decision, but that person or authority need not be senior management, so long as the person or authority is acceptable to all parties. The freedom to resolve certain issues for themselves, would serve to empower workers and increase their emotional stake in the company.[10] It would also, of course, save on managerial time.

The same logic extends to all the problem resolution strategies discussed in this chapter. Consequently, the discussion of problem resolution should not be seen in

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[7] Van der Merwe 2003, 63
[8] Sadler 2002,132
[9] As discussed in Section 5.5.
[10] As per the discussions in Chapters One, Four and Five, in particular the work of Maslow and the functioning of web structures.

isolation from the preceding chapters. Stated differently, how a company deals with conflict does not only affect its internal culture, but also its relationship with external stakeholders.

The implications of conflict resolution extend even further into the theoretical sphere, touching on the ethic of neutrality, which contends that lower level officials within an organisation are only allowed to carry out the organisation's directives. Their positions are therefore devoid of both ethical responsibility and ethical authority.[11] If decision making power is however devolved, this position becomes untenable, since non-managerial employees are no longer without recognised and institutionalised authority. Moreover, all the ethical positions established throughout this thesis, contradict the notion of any actions by corporate personnel ever being without an ethical connotation or implication. A prime example of this being accountability. Even if an immoral action was carried out only because one was told to do so by a superior, one can still be held accountable.

This establishes the ethical implications of problem resolution, but the ethical connection does not end there. Much of this chapter examines the manner in which, certain ethical theories deal with conflict and making decisions with regards to morally problematic situations. The choice of ethical theories to examine may in itself be contentious. To make this choice the two criteria of prevalence and application were used. Under the heading of prevalence there are three theories or positions that can be discussed, namely Kantian Ethics, Virtue Ethics and Consequentialism:[12] "*In recent years, three ways of thinking about morality have come largely to dominate the landscape of ethical debate. These three are consequentialism, which emphasises good results as the basis for evaluating human actions; Kantian ethics, which focuses on ideals of universal law and respect for others as the basis for morality; and virtue ethics, which views moral questions from the standpoint of the moral agent with virtuous character motives.*"[13]

[11] Thompson 1988, 30
[12] Including utilitarianism, act utilitarianism, rule utilitarianism and the cost-benefit analysis approach.
[13] Baron, Pettit and Stole 1999, 1

Under the application criterion we find the RIMS strategy, which is based on Habermas' ideal speech situation. From the work of Habermas an institutionalised approach is then developed and implemented.

The two criteria were chosen to reflect the broad and changing nature of the contemporary ethical landscape, which in itself represents a break with the 'old company' paradigm. The 'old company' paradigm would not have been able to perceive of opposing moral positions as having equal value or validity.

The current position then accepts that moral sentiments are not stable and change over time. The dramatic change in the societal position of women over the last century serves as a sterling example of this.[14] But even though the occurrence of such change is a fact, its interpretation remains open. Some see change in moral sentiments as a deterioration in morality,[15] while others see it merely as a natural movement or even progress.[16] Changes in the functioning and fabric of society also affects constituents of society, such as companies.[17] However, the effect on companies is all the more significant given their special status, with the corporation being increasingly seen as the central institution of latter-day society.[18] Before progressing to strategies that companies can employ, in order to deal with moral, and other, problem resolution, the issue of persuasion must first be revisited.

The resolution of problems and disputes, most notably those that you are involved in, often require the use of persuasion. The relationship between ethics and persuasion has already been explored, but a quick recap will be offered here.

6.2) Ethics, persuasion and the search for answers.

The simplest way to settle differences is of course for one party to persuade the other to change their position. As we saw in Chapter Three, persuasion in itself is ethically neutral, instead it is the persuasion technique utilised which has an ethical value. The ethical implications of persuasion is thus context bound.

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[14] Deurloo 1992, 17
[15] Becker 1992, 32
[16] Kosto 1992, 24
[17] Donaldson 1992, 100
[18] Shaw & Barry 2001, 196

Of the utmost importance in situations that involve persuasion, is an understanding of problem resolution as the generation of mutually acceptable outcomes, and not as a route for getting one's own plans implemented at the cost of those of others. In Chapter Four we saw the importance for management to create a measure of symbiosis between the goals of the company and those of the employees. To facilitate this, problem resolution should be approached in an open and honest manner, with the best initial approach being to gain insight in the positions of other parties.[19]

A popular strategy for fulfilling such requirements is by setting up a list of requirements and techniques. In this regard the persuader might consider the following ethical imperatives:[20]

1. *Practice inquiry before advocacy. Be open to a variety of view points before you embrace any one of them.*
2. *Know your subject. If what you say isn't based on firsthand knowledge, get the information you need from the library or from the Internet.*
3. *Be honest about your identity. Don't purport to be an expert if you are not.*
4. *Try to tell the truth as you perceive it. Don't deliberately mislead audiences about your true opinions on a matter.*
5. *Avoid fabrications, misrepresentations and distortions of evidence.*
6. *Don't oversimplify.*
7. *Acknowledge possible weakness, if any, in your position. Be honest about your own ambivalence or uncertainty.*
8. *Avoid irrelevant emotional appeals or diversionary tactics.*
9. *Appeal to the best motives in people, not their worst motives.*
10. *Be prepared to lose on occasion if winning means doing psychological harm to others and demeaning yourself in the bargain.*

The above is an example of what is known as a checklist approach. Checklists represent the central strategy of the standard approaches to problem resolution, which will be the next topic of discussion.

[19] Tjosvold & Tjosvold 1995, 175
[20] Simons, Morreale & Gronbeck 2001, 362; 363

6.3) Standard approaches.

The title of this section is not intended to insinuate that there is a single standard view on conflict resolution, hence the use of 'approaches' instead of 'approach'. There is however a certain commonality to most of these approaches.

Most standard approaches present a list of steps to be taken in order to resolve a dispute or solve a problem. These steps are usually not intended to aid in other forms of decision making and can only be implemented by a manager, thus limiting their utility. These standard approaches most often also do not contain any form of ethical safety net, to prevent the making of ethically unsound decisions. That is to say, decisions made by following a checklist are usually not subjected to ethical or moral scrutiny, since the checklist is designed to provide a *correct* answer, but it is near impossible to adequately account for ethical concerns within such a checklist.

Besides for these checklist approaches, there are also broader strategies aimed specifically at resolving conflict between two or more parties. The following eight strategies are all aimed at resolving disputes, each utilising a different technique:[21]

1. **Conciliation.** Normally this approach does not require the involved parties to meet face to face. All communication is passed through a third party, called a conciliator. The conciliator assists both parties in understanding one another, which moves them closer together in order for conciliation to be reached.
2. **Consensus.** The process is aimed at reaching an agreement, without there being a winner or a loser. This pre-empts future disputes that may arise if one party loses.
3. **Collaboration.** As the name implies, there is no neutral party here. Instead the involved parties work together, to find a solution to their situation. As with a consensus, this technique also involves everybody in the decision making process, thus pre-empting future disputes.
4. **Negotiation.** This is a problem solving communication and is, as such, present in most other dispute resolving techniques.
5. **Mediation.** The disputing parties gather with a neutral third party, to whom the dispute and all relevant information is explained. The mediator, once all

[21] Kestner & Ray 2002, 11 – 15

relevant facts have been examined, assists the disputing parties in reaching an agreement.

6. **Fact-finding.** Decision makers use this process to assist them in the performance of their duties, as it provides unbiased or neutral facts.
7. **Arbitration.** As with mediation, disputing parties present the situation to a neutral third party. The arbiter however, does not assist the disputing parties in making a decision. Instead the arbiter makes a decision which is binding to all parties involved.
8. **Med-Arb.** This entails a combination of mediation and arbitration. The neutral party first mediates on all issues, and then arbitrates on unresolved issues.

The success of whichever approach one adopts, is however still dependant on the individuals executing it. As a result, individual strategies for dealing with conflict also come to the fore. Even in strategies which aim at an egalitarian result, such as mediation, can still be affected by bias.[22] The human tendency towards bias was also discussed in Chapter Five. Both points affirm the notion that the psychological disposition of individuals, within a conflict resolution process, can have an effect on the process itself. Here again, eight prominent strategies can be identified:[23]

1. **Avoidance.** A person would withdraw from a conflict situation rather than face it.
2. **Accommodation.** The person may be over eager to bend to the will of others.
3. **Passivity.** This is characterised by a denial of the problem, in the hopes that others will solve it, or that it will go away.
4. **Compromise.** This approach requires all involved parties to give something in order to get something. This does, however, not always ensure an equitable solution for all.
5. **Aggression.** This style is competitive and could possibly undermine attempts at reaching a solution.
6. **Assertion.** The assertive person shows equal respect for his or her own position and for those of other parties. Such a people seeks a resolution to their own concerns, but not at the cost of those of other parties.

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[22] Bercovitch 1996, 40
[23] Kestner & Ray 2002, 25; 26

7. **Collaboration.** Collaborators work with other parties, instead of against them. In so doing, a mutually beneficial agreement is sought.
8. **Problem solving.** A cooperative or collaborative stance is taken, in order to solve the dispute in an amicable fashion.

Keeping these psychological dispositions in mind could assist one in understanding the positions taken by others. Their utility through this contribution is of course limited, because they still do not address the issue of ethical decision making.

A further problem with checklists and the above mentioned approaches, is that there is of course no guarantee that real life situations would correspond to the conditions necessary for their application. When the facts of a situation place it outside the scope of a checklist, the person having to make a decision or resolve a conflict will most likely fall back on a different set of values, namely their own ethical beliefs.[24] For this reason, and those stated in the introduction, we will now turn to a number of ethical theories, paying specific attention to the manner in which they solve problems. The intention of the following discussion is not to fully examine or compare the various ethical theories. Rather, the focus will be on how they direct the decision making process, with a view to application.[25] The first of the ethical theories viewed here is consequentialism.

6.4) Consequentialism and utilitarianism.

6.4.1) The consequentialist view.

According to the consequentialist position, the moral value of an action is entirely derived from the action's consequences. This means that neither the moral character of the agent performing the act, nor any possible intrinsic value of the act is considered in making moral judgements concerning the act. Only the consequences of the act itself are regarded as pertinent to making moral judgements, from the consequentialist point of view.[26] This, in effect, means that an accurate judgement on a matter is only possible

[24] Cadbury 1987, 51 – 53

[25] It should be noted that an extensive comparison of the different approaches, especially concerning functionality, will not be entered into. Such an exercise would be too long, without offering much in the form of eventual reward. Unless of course, if one is under the mistaken impression that one strategy, or approach, can be crowned as 'right'.

[26] Blackburn 1996, 78

once all the consequences are known and not beforehand, which is a potentially limiting factor.

If a dispute is resolved on consequentialist grounds, one would take the results of different resolutions into account and then opt for the one with the most favourable results.[27] So for instance, if two departments require access to the same limited resource, the results of allocation to both will be examined. The action providing the best results will be opted for.

Consequentialism can be divided into a number of different forms, of which four will be inspected here. They are utilitarianism, act utilitarianism, rule utilitarianism and cost-benefit analysis. Because of the narrower definition of the forms, a discussion of application will deliver better results within each of their sections, than under the heading of consequentialism.

Utilitarianism, which is the first form to be viewed, solves one of the biggest problems with consequentialism: that being the issue of which standard to use when evaluating results. Utilitarianism opts for utility.[28]

6.4.2) Utilitarianism.

Utilitarianism, a form of consequentialism, judges the consequences of actions in terms of the happiness that they produce. An action thus has utility, in as much as it contributes to general happiness. This type of reasoning is especially prevalent in contemporary political and social planning[29] and dates back to the work of Jeremy Bentham (1748 – 1832).[30] Writing from this tradition, the nineteenth century English philosopher John Stuart Mill, explains his position in the following quote: "*The utilitarian doctrine is, that happiness is desirable, and the only thing desirable, as an end; all other things being only desirable as means to that end.*"[31] Mill also paid special attention to the condition of harm, which is seen here as the opposite of causing

[27] Shaw & Barry 2001, 55
[28] Harris, Pritchard & Rabins 2000, 77
[29] Blackburn 1996, 388
[30] Velasquez 2002, 75
[31] Mill 1996, 30

happiness. He contended that the only justifiable reason for society exercising control over one of its members is to prevent that person from causing harm to others.[32]

What exactly constitutes both harm and happiness, especially within the corporate context, is an open question. Where as, consequentialism was too broad to facilitate proper application, utilitarianism proves to be too vague. Instead of therefore launching into an extended investigation of the two concepts, the discussion will move to more exactly specified instances of utilitarianism. With their specific nature also facilitating the application of the relevant principles to moral problem resolution and decision making.

Within utilitarianism three main approaches can be identified, namely act utilitarianism, rule utilitarianism and the cost-benefit analysis approach. Act utilitarianism can be seen as straight utilitarianism, being only concerned with the consequences of actions, which opens it up to a number of criticisms. This in turn, gave rise to the rule utilitarian approach, according to which the maximisation of utility remains central, but with the addition of rules to guide actions under certain conditions. From this approach to utilitarianism, a rule is seen as the right rule for all to follow in as much as it satisfies the principle of utility maximisation.[33] The third and final approach differs somewhat from the first two. A cost-benefit analysis applies the utilitarian standard to business problems by translating negative and positive utility into monetary terms. Through a comparison of monetary gain and loss from different actions, the best possible action can be identified.[34]

We will now view each of these positions and consider their implications for moral problem resolution and decision making.

6.4.3) The act utilitarian approach.

Act utilitarianism is focused on the utility of actions, understood as the measure to which the act increases happiness. "*[A]n act is morally right if and only if it maximises utility, i.e., if and only if the balance of benefit to harm calculated by*

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[32] Graham 1995, 122
[33] Humber & Snoeyenbos 2002, 17; 18; 26
[34] Harris, Pritchard & Rabins 2000, 79

taking everyone affected by the act into consideration, is greater than the balance of benefit to harm resulting from any alternative act."[35]

The easiest means of implementing this approach is by asking the following question. Will the course of action that I am about to take, produce better results for all those concerned than any other possible course of action? If the answer is yes, then the course of action is the right one to take.[36]

This explanation is, of course, rather simplistic. When applying the principle, one would firstly need to ensure that all stakeholders are included in the process. Secondly, one must be cognisant of the possibility of anomalous results. These would be actions that are morally justifiable under act utilitarianism, but still contradict most moral positions. Illustrating this possibility, is the actions of aid agencies that distribute the Dalkon Shield contraceptive device in Africa.[37] In Chapter Four the health risks associated with the device, including the reasons for its withdrawal from the American market, were discussed. Seen from this context, it is hard to understand how aid agency can knowingly supply this device to people. The aid agency, however, uses act utilitarianism to justify its position. According to them, the possible negative results of using the device, outweigh the definite results of not supplying poverty stricken Africans with any form of contraceptive.

It is doubtful, however, if any of the other non-utilitarian positions considered here, can be used to justify the aid agency's actions. Even on utilitarian grounds their argument is somewhat dubious. Faced with a choice between the health risks associated with the device and the added burden of an unwanted pregnancy, it is conceivable that some people would opt for the pregnancy. Moreover, there is a measure of arrogance inherent in the agency's view, that they have the moral authority to make such a profound decision concerning the lives of others.

One final point also places a question mark behind the aid agency's motivation. The agency is funded by the American government, which also allowed the agency to buy

[35] Snoeyenbos & Humber 2002, 17
[36] Harris, Pritchard & Rabins 2000, 81
[37] Shaw & Barry 2001, 28

the dangerous devices from the American producers, thereby securing revenue for the company that would otherwise have been lost.

If the act utilitarian principle is applied correctly, with the implied proper stakeholder engagement, it can still deliver positive results. Consider the process of needs assessment, which was introduced in Chapter Five. The act utilitarian principle can be used as a filter with which to test the utility of the final decision reached through the needs assessment process. With the needs assessment process itself requiring that all stakeholders be considered, there is a natural fit with act utilitarianism. Which, when applied in this manner, runs a reduced risk of supplying an anomalous result. The risk is, however, not totally nullified by making use of this strategy.

In an attempt to account for anomalous results, rules can be added to utilitarianism. This position is accordingly, called rule utilitarianism and will be considered next.

6.4.4) Rule utilitarianism.

In many instances, deducing the best course of action by means of the act utilitarian approach would not be expedient, especially in a recurring situation. In these instances we take guidance from rules, such as traffic rules, dress codes and the like. Ignoring these rules will have obvious negative effects. Hence, one can deduce that obeying certain rules may maximise utility.[38] As a result, this position is called rule utilitarianism and is based on two principles or convictions, namely:[39]

1. *Utility maximisation plays a central role in an adequate moral theory.*
2. *Rules play an important role also, a more important role than is accorded them by act utilitarianism.*

Within the corporate environment new rules are continuously created, thus underscoring the functionality of rule utilitarianism. Rules in this instance are incarnated in the form of corporate policy, directives and codes. The necessity for which, arose out of employees needing to know the company's position on all issues, without the burden of having to continuously having to ask management.

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[38] Harris, Pritchard & Rabins 2000, 83; 84
[39] Snoeyenbos & Humber 2002, 27

In order to choose between possible rules, the standard of utility is used yet again. Thus the rule to be implemented is the one with the most utility, or stated differently, the best consequences for all affected by it.[40]

Consider in this regard, the establishment of an internal feedback system aimed at monitoring ethical conduct, with two possible options being presented. Option A requires department heads to circulate questionnaires within their departments. After which they compile a report for senior management. Option B mandates the establishment of a fulltime reporting office, to which employees can report anonymously. After considering each option's measure of utility for all stakeholders, it is decided that option B is the better of the two. As a result, a rule (corporate directive) is established which enacts option B.

Again the obvious problem of what constitutes best results presents itself. A final attempt to deal with this problem can be found in the cost-benefit analysis approach, which measures utility in monetary terms.

6.4.5) The cost-benefit analysis.

A cost-benefit analysis resolves the problem of defining utility within the corporate context. It does so by translating both the positive and negative results of a situation into monetary terms. This allows a direct comparison of the financial implications of a situation. A choices is then made for the situation with the best monetary results. This process can be divided into the following three steps:[41]

1. *Assess the available options.*
2. *Assess the cost and benefits (each measured in monetary terms) of each option for the entire audience of the action, or all of those affected by the decision.*
3. *Make the decision that is likely to result in the greatest benefit relative to cost, that is, the course of the action chosen must not be one in which the cost of implementing the option could produce greater benefit if spent on another option.*

[40] Hooker 2000, 2
[41] Harris, Pritchard & Rabins 2000, 79

In cases where there are only two options, such as a dispute between two parties, the decision becomes considerably easier. The attachment of direct monetary value is also the locus of this approach's appeal to the corporate context. Although those implementing it should take special notice of point number two, which calls for the analysis to consider the monetary implications of a decision for all affected parties, not just the company.

A cost-benefit analysis, as with all problem resolution strategies, is not without its critics. The first possible problem with this approach, relates to the nature of the financial figures that it uses. Since the costs and benefits analysed are yet to be realised, the figures used are only estimates, implying the possibility of unforeseen factors, which may lead to the final decision being the wrong one.

The second potential problem is concerned with the inappropriate applications of this approach. Since all factors relating to the decision to be made are translated into monetary terms, the final analyses only shows numbers, discounting non-financial factors. People are, under this system, no longer viewed as such, which opens the possibility of morally unjustifiable decisions being made. The case study presented at the end of this chapter, will examine a cost-benefit analysis which not only failed on both these counts, but also did not adhere to the second of the three steps listed above.

A last option, when dealing with utilitarianism, is a combined approach to moral problem resolution, which entails the establishment of three tests based on act utilitarianism, rule utilitarianism and the cost-benefit analysis approach.[42] These tests are as follows:

1. Will the action that I have decided upon provide better results than any other viable course of action?
2. Would the universal application of the rule that I am following, or that can be derived from my actions, maximise utility?[43]
3. Will the action that I am taking result in the greatest utility relative to the cost thereof?

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[42] Harris, Pritchard & Rabins 2000, 79; 81; 82 – 84

[43] This second test closely resembles the Kantian approach, which will be discussed shortly.

These three tests provide a further tool with which to, more accurately, judge the utility of a proposed course of action. However, moral decision making and problem resolution does certainly not have to be on consequentialist or utilitarian grounds in order to be successful. Opposing these approaches are the Kantian and Virtue ethical positions, with the Kantian position examined next.

6.5) Kantian solutions.

Kantian ethics is one of the leading systems in the field of deontological ethics, which is ethics based on the notion of a duty to do what is right.[44] The German philosopher, Immanuel Kant (1724 – 1804), was the originator of Kantian ethics. However, many subsequent thinkers have followed his lead and also adapted his work, therefore the term Kantian ethics will be used as a general term to refer to the positions of all those who have worked within the general boundaries of the Kantian tradition.[45]

The general proposition of Kant's position is known as the categorical imperative, which reads as follows: "*Act only on that maxim through which you can at the same time will that it should become a universal law.*"[46] In layman's terms the categorical imperative can be explained as the golden rule or; do onto others as you see fit for yourself. Which, incidentally, appears in some form or another in almost every major world religion.[47] What Kant is suggesting is that in order to judge an action as correct one must be willing to extrapolate a rule from that action and apply it universally. For example; would it be acceptable to punch somebody who disagrees with you during a discussion? Well if it is, the rule taken from such action would be that it is always correct for anyone to punch another person who is disagreeing with them, during a discussion. This in turn means that you are likely to end up with a black eye the next time you take part in a discussion, which you would probably dislike. Hence it is, as a rule, not acceptable to punch someone who is disagreeing with you.

Kant also set up two more formulations of the categorical imperative: "*Always treat the humanity in a person as an end, and never as a means merely,*" and: "*So act as if you*

[44] Blackburn 1996, 100
[45] Baron 1999, 3
[46] Kenny 1997, 191
[47] Harris, Pritchard & Rabins 2000, 86; Also see Appendix F

were a member of an ideal kingdom of ends in which you were both subject and sovereign at the same time."[48]

Making a decision, or resolving a dispute on Kantian grounds accordingly involves the inference of a rule. The rule, thus inferred, must also be tested against the requirement of universal application. If it passes this test, the initial action is correct. This process may be somewhat abstract in deciding a dispute between two parties, but it may nonetheless be successful. Extrapolating a rule in this fashion can also assist in resolving moral conflicts and the making of ethically laden decisions.[49]

The categorical imperative provides a strong tool for decision making, but it unfortunately does not provide a watertight guarantee that all those who use it will arrive at an ethically acceptable solution. The problem originates from the possibility of exceptions. In any instance, if one looks hard enough, there will be those who would defend an unethical situation even to the point of proposing that it is universally applicable. The perpetrators of the holocaust would serve as a prime example of this. In everyday situations the problem faced may not be as extreme, but the need for a solution would exist just the same. Roland Green offers his NORM approach as a possible solution.[50]

NORM is the shortened form of Neutral Omnipartial Rule Making. Green's conception of omnipartiality is a stakeholder based approach to problem resolution. In short, Green states that the needs of all stakeholders should be considered in an impartial manner, which could be compared to a broad based needs assessment. After the needs of all legitimate stakeholders have been considered, a rule concerning the present situation can be extrapolated in a non-partisan manner. This rule would therefore, given the needs assessment, not cater to the positions of radicals, nor fall into the trap of exceptions.

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[48] Bowie 2002, 4
[49] Bowie 1999, 7; 48; 49
[50] Bradburn 2001, 10; 11

Similarly to utilitarianism, three tests can be developed with which to judge an issue on a Kantian basis. These three tests, with a brief explanation to follow, are:[51]

1. The golden rule test.
2. The self-defeating criterion.
3. The rights test.

The golden rule test is, as the name suggests, the application of the golden rule, which can loosely be phrased as: treat others as you would like them to treat you.[52] If the course of action which you are about to take, is inconsistent with the manner in which you would like to be treated by others, then it is wrong. The self-defeating criterion on the other hand, examines the consequences of a certain course of action becoming the norm. The test asks whether or not: "*I would be able to perform the action in question if everyone else performed the same action in the same or similar circumstances*"?[53] If my ability to take a certain course of action is undermined when everybody else adopts the same course of action, the action is the wrong one under the circumstances. Lastly, the rights test protects against infringements on human rights.[54] The rights test requires that one never use others as mere means to one's own ends, instead the human rights of others must be respected.

Kantian ethics, with the addition of Green's proposition and the three tests, could have been extremely useful for any manager within the Enron case. Not only were their actions unsustainable, but if their conduct was universalised, the net result could only be a global market crash. Interestingly, Chapter Four showed that the initial public condemnation of such conduct is not based on these considerations. Instead, the public position closer resembled that of virtue ethics. Which is also why we now turn to it.

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[51] Harris, Pritchard & Rabins 2000, 85 – 91. These tests are also referred to as the ethics of respect for persons.
[52] See Appendix F for six religious formulations of the golden rule.
[53] Harris, Pritchard & Rabins 2000, 88
[54] The issue of human rights was introduced in Section 4.3.

6.6) The Virtue ethical position.

When dealing with virtue ethics[55] for the first time, one question readily presents itself to the modern individual, namely: why should such a *dated* idea be revisited?[56] In dealing with questions involving classification, explanation and evaluation, the modern individual finds him- or herself in a difficult situation. The legacy of late twentieth century philosophy has made the thinking agent extremely self-reflective and removed even the possibility of exact classification or final understanding. With this realignment of thought, the concept of linear progress has also come to be doubted.[57] With the very concept of progress suspended,[58] we move into a frame of mind where temporal movement does not lend any measure of priority or import to those concepts or ideas that happen to be more 'recent'.[59] With this in mind, there appears to be no good reason why an 'old' idea may not challenge a new one, even if the separation between them is measured in centuries.

Along this same line, there has also been a re-emergence and reinterpretation of old ideas, such as Hegel's concept – the end of history – reinterpreted by Fukuyama.[60] Therefore the door to revisit past theories has been opened, but just because something *can* be done, does not mean that it should be done. So why then should past ethical theories be reconsidered or reinterpreted? The answer is not particularly glamorous or revolutionary. Simply put, such older theories are still useful and valuable in contemporary society. (Oddly enough, this is a rather utilitarian justification for a non-utilitarian theory.)

As seen in Chapter Four, people still think in terms of virtue ethics. That is to say, that people still judge others on the basis of a discrepancy between their actions and the attitudes, dispositions and character traits of the virtuous agent, as he or she is perceived. To resolve a problem or make a decision on the basis of virtue ethics, the actions of the virtuous agent, under the same conditions, would have to be considered.

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[55] The central propositions of virtue ethics were introduced in section 4.2.2 and will, therefore, not be repeated here. Also see Appendix F.
[56] This question can be revised to ask: what is the modern-day utility of virtue ethics.
[57] Painter-Morland 2002, 1
[58] *Suspended* is used instead of *removal* as the weakened position of the idea of progress may in future strengthen.
[59] This also undermines the relationship between age and wisdom.
[60] Benhabib 1992, 1

Per illustration, one can decide if a given action was professional, by considering if it complies or adheres to the actions, dispositions and character traits that are expected to be the norm in a certain profession. This is, however, qualified by the provision that the profession must itself be morally acceptable, as the virtuous agent would not act in the services of an immoral profession.[61]

When using the principles of virtue ethics to make a decision, one should consider a further division within virtue ethics. "*Virtue, then, falls into two divisions, intellectual excellence and goodness of character.*"[62] Intellectual excellence refers to the combined product of, a proper education, training and life experience. Goodness of character, on the other hand, refers to adherence to accepted moral standards.[63] Hence, the virtuous agent would not only act on the basis of good character, but would also exemplify intellectual excellence.

Virtue ethics can be used in this manner to resolve disputes and to make difficult decisions. Given, of course, that one can, with a measure of some certainty, say how the virtuous agent would have acted. Unfortunately, the virtue ethical approach is difficult to implement in situations were all the stakeholders are not in agreement on how the virtuous agent would act. As with many other aspects of contemporary business ethics, globalisation plays a role in this.

Globalisation may have opened up the world market and allowed high speed communication, but it has not resulted in global cultural homogeneity. Instead, managers in multinational companies still have to remain culturally sensitive.[64] In bigger companies, for instance, there will be a large and notable measure of cultural diversity amongst employees.[65] This diversity has the potential to undermine positions drawn from a virtue ethical perspective since the nature and composition of the virtuous agent would differ from one cultural grouping to the next. This point notwithstanding, virtue ethics have remained a popular means of judging acts and situations. This is particularly the case outside of formal academic discourse.

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[61] Oakley & Cocking 2001, 74
[62] Aristotle 1989, 253
[63] This point has a number of interesting and problematic implications, but delving into these would exceed the bounds of this discussion.
[64] Dadoo, Ghyoot, Lephoko & Lubbe 2001, 3 – 7
[65] Pot 2003, 118; 119

As with the previous two ethical approaches, three tests can be developed through which one can judge a situation or action. These three tests are as follows:

1. The virtuous agent test.
2. The intellectual excellence test.
3. The goodness of character test.

The virtuous agent test requires that one judge a situation by asking if it is contrary to, or in line with, the attitudes, dispositions and character traits of the virtuous agent. In other words; would the virtuous agent take this course of action? The intellectual excellence test, instead, focuses on a single aspect of the virtuous agent. The test requires one to ask whether or not a person with adequate schooling, training and life experience, would take a certain course of action.[66] Stated differently, would somebody with the appropriate knowledge judge this situation to be correct, or incorrect. Lastly, the goodness of character test bears a close resemblance to the virtuous agent test. However, instead of considering the larger societal view of the virtuous agent, one is required to view one's own moral upbringing. In other words, judged on my own moral upbringing, is this course of action right or wrong?[67] This test does of course require total honesty in its application.

The following strategy to be discussed here, does not make a direct choice for one particular approach. Instead, it aims at clarifying a situation so as to expedite the implementation of other strategies, where-after it compares the results provided by these strategies, thus dealing with the possibility of anomalous results and exceptions.

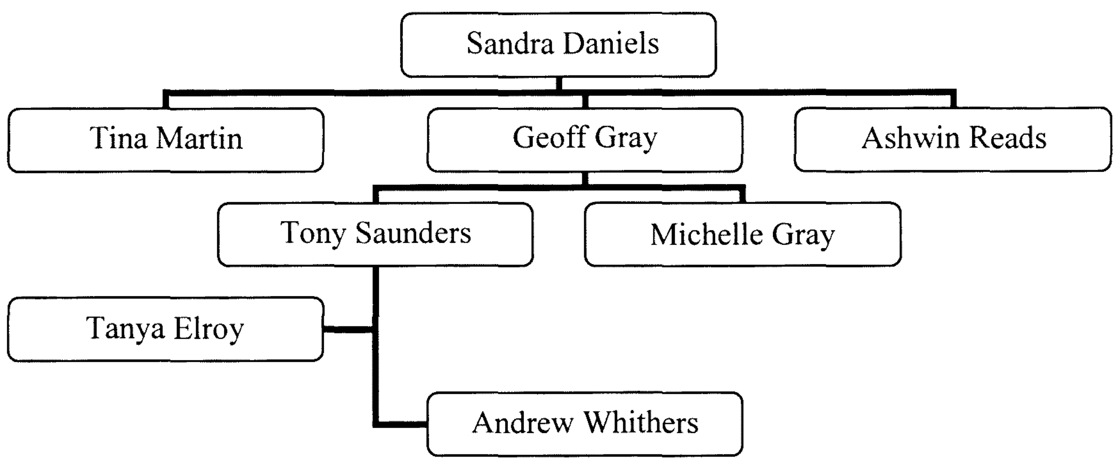
6.7) Mapping the situation.

6.7.1) The principle.

Almost everybody has had the experience of relying on another's directions in order to reach an unfamiliar destination. Linked to this experience is the ease of using most maps and the usual difficulty of following long verbal directions. Mapping a problematic situation functions on this principle.

[66] The intellectual virtue of the person applying this test could represent an obstacle, if it is insufficient.
[67] Unfortunately, the possibility of anomalous results and exceptions, as introduced under utilitarianism and Kantian ethics, persists.

A simple example would be the hierarchy within a fictional corporate department containing eight people. Trying to verbally explain the positions of each of these eight people within the fictional department, without naming their job descriptions, is a tall order, added to which is the ever present possibility of misunderstanding. Mapping this hierarchy, on the other hand, is considerably easier and presents less of an opportunity for a misunderstanding to occur, as is evident from the following diagram.



In a similar fashion, a problematic situation can be mapped. Once mapped, it is easier to understand the situation and therefore, also easier to solve it. Just consider the problems associated with a corporate merger for instance. It would be impossible to plan the structural specifics of the merger, without first precisely mapping the corporate structure of both companies. As we will see in the following discussion, moral problems can be approached in a similar fashion.

Mapping out a problem can thus clearly assist in finding an appropriate answer to it, since mapping enhances understanding of the situation. This logic extends to the application of the strategies already discussed in this chapter. In the following discussion we will utilise the mapping principle in conjunction with a number of ethical positions.

6.7.2) Mapping ethical strategies.

When it comes to ethics and ethical decisions, people generally have their own predetermined positions,[68] which is why it is so important for decision makers to use strategies that encourage objectivity. The strategy that will be briefly showcased here does exactly that, by means of mapping situations. The map or diagram not only includes the relevant information but also different solutions, arrived at by means of different strategies.

This strategy is unique for one other reason: it is presented in the form of a computer programme intended to aid in ethical decision making. The programme, entitled Ethos System, was developed by Taknosys Software Corporation.[69] At its heart is the intention to not only map out a problem, but also a number of different solutions, thus, allowing the decision maker to compare solutions and arrive at a more informed conclusion.

A possible critique that can be brought in against this system, is the problem of computer-aided decision making. The possible problem with computer-aided decision making, relates to the level of computer involvement in the final decision. Is the final conclusion truly the appropriate human response, or is it merely the product of a formulaic electronic process? If the answer is the latter, then it is doubtful if moral problem solving can be approached in this manner. Fortunately, the Ethos System does not fall into this trap, as it does not dictate the final result, instead, it only assists the human operator in mapping the problem and comparing the results provided by different ethical approaches. The final decision therefore, remains in human hands.

The Ethos System is operated from a central panel, which is shown below. The decision maker starts by filling in details on the left and then the right, under the headings in the central panel. With the items on the right providing solutions to the situation examined on the left. Finally the analysis is completed and a conclusion reached. The different headings will not be explored here, as the focus of the

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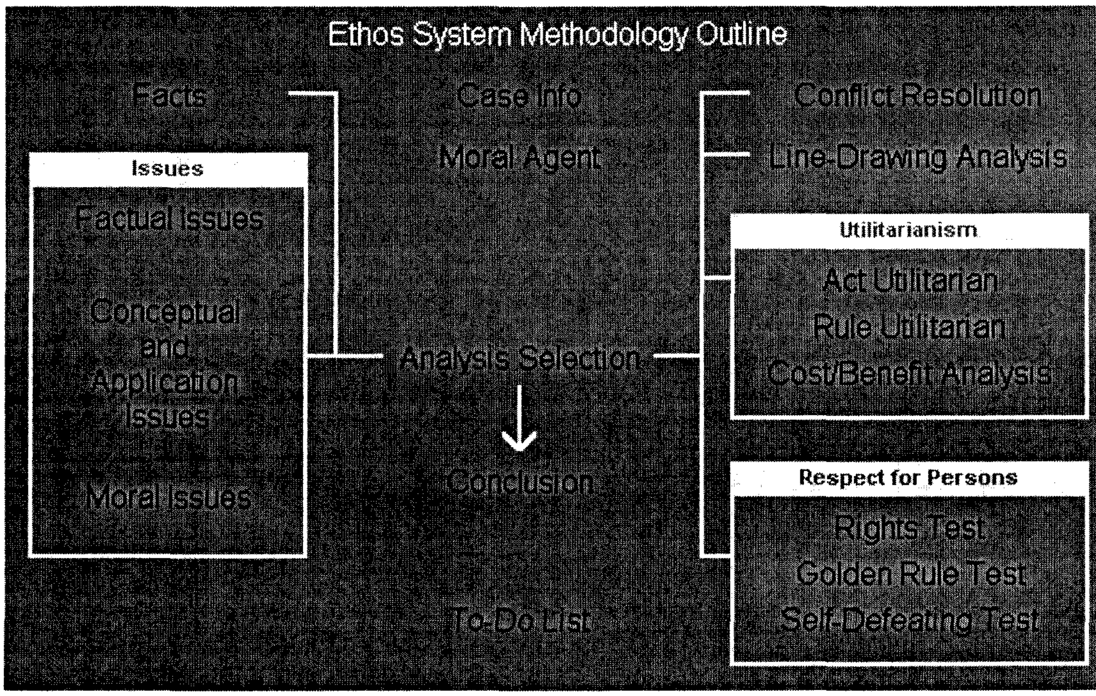
[68] Solomon & Hanson 1985, 59

[69] The programme is distributed free of charge with Harris, Pritchard & Rabins 2000.

discussion is the application of the mapping principle and not the specifics of the Ethos System.[70]



The final conclusion provided by the Ethos System acts as a comparative tool, which gives the decision maker access to the input originating from the different strategies used. The significance of this comparison lies with the decision maker's access to results derived from different ethical theories, which he or she would not necessarily have considered otherwise. Through this process, objectivity in moral decision making is advanced.

The final strategy that this chapter will study is a mixture of the ethical and standard approaches. The strategy, known as the RIMS (Rational Interaction for Moral Sensitivity) technique, functions on a philosophical/theoretical basis, but within the bounds of set procedural requirements.

[70] Most of the headings are also self-explanatory.

6.8) The RIMS technique.

One of the greatest obstacles to problem resolution is effective communication. Since everybody has a unique frame of reference, given that no two persons have exactly the same life experiences, communication is negatively impacted. So for instance, person A may refer to a situation as 'carnival like', meaning that it is chaotic, but person B perceives the communication to mean 'fun to experience'. The interference in the transfer of meaning, caused by such factors, can of course have a negative impact on the resolution of moral problems, or any other issue for that matter. A point which George Bernard Shaw explicitly formulates: *"The greatest problem in communication is the illusion that it has been accomplished."*[71]

The general problem concerning the transfer of meaning can be described as follows: *"Meaning ... is understood through contextualisation, because meaningful relations are a species of internal relations ... the understanding of ... meaning always commences from a given meaningful world and involves entering into a different and unfamiliar meaning complex by tracing its relations with one's own."*[72] Thus, any new information that one encounters, first has to be contextualised within your own frame of reference before it can become meaningful to you. However, the original meaning of this information was situated within a different context, with this leap in context meaning can shift or be lost. This state of affairs is what the German philosopher Jürgen Habermas, refers to as systematically distorted communication.[73]

In an attempt to deal with this problem, Habermas introduced the notion of an ideal speech situation.[74] Habermas' ideal speech situation represents a radical break with the previously discussed ethical theories. Instead of focusing on the content of issues or the implications of actions, Habermas concentrates on the process by which decisions are made and proposes a structured process intended to address the issue of systematically distorted communication. This process, as envisioned by Habermas, takes place in the ideal speech situation, and if all its necessary requirements are met

[71] Tjosvold & Tjosvold 1995, 131. See also De Saussure 1983, 67 – 70
[72] Bernstein 1995, 44; 45. The discussion presented here will only concentrate on those aspects of Habermas' work that is directly applicable, as his full argument is far too extensive to present here.
[73] Pusey 1987, 69 – 75
[74] Rossouw 2002, 72

the resulting interaction is referred to as a *discourse*.[75] Rossouw develops his RIMS[76] strategy from these necessary requirements and explains them as follows:

1. *The only evidence that participants may introduce in the discourse, is empirical experience which is objectively accessible. In the case of norms, only those norms that can attain consensual recognition in the discourse itself are permissible.*
2. *The process of communicative interaction is driven only by the force of the strongest rational argument.*
3. *Only those experiences, arguments and norms that can attain consensual agreement are regarded as knowledge.*
4. *Any knowledge formulated in this way is always open to revision.* [77]

This theoretical formulation represents the foundation of the RIMS strategy. The ideal speech situation is, however, somewhat removed from the reality of day-to-day human communication, especially as far as the hierarchical power structure of most corporations is concerned. To account for this discrepancy, the RIMS strategy functions on the basis of a number of assumptions. These are:

1. **Moral dissensus is a given.** Modernity's failure to produce a single grand narrative, which explicates human morality in its totality, has left us with numerous different theories.
2. **Moral dissensus does not equal ethical relativism.** This would only be the case if communication between different positions were meaningless. Contrary to this position, the RIMS strategy actively encourages such interaction.
3. **Dialogue can produce solutions.** The RIMS strategy uses dialogue to constructively resolve situations in a morally sensitive manner.
4. **Focusing on motives is futile.** At best, the underlying motives of any ethical position can only contribute to understanding. It will however not persuade the holder to change his or her position, because their motivations function on a subjective level.

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[75] Cook 1994, 31. Again it would not be possible to fully explore Habermas' argument.
[76] Rational Interaction for Moral Sensitivity.
[77] Rossouw 1994, 16

5. **Good information is essential.** A proper moral decision cannot be made on the basis of insufficient information, as this would undermine the functionality of the decision.
6. **Only moral arguments are allowed.** Only arguments with a bearing on the moral issues may be submitted. Furthermore, the arguments must consider the positions of all concerned parties. Hence, no ego-centric or socio-centric arguments may be used. [78]

With the six assumptions serving as background, the three functional steps of the RIMS technique can be established. These three steps are: generating and evaluating arguments, identifying implications and finding solutions.[79]

During the generating and evaluating phase, only arguments of a moral or morally significant nature will be accepted. Following from the earlier discussion, these arguments may not be self-centred and should take others into account. The arguments should be easily comprehensible and both logically and factually correct.

The second phase is concerned with identifying the implications of the arguments brought forward and accepted, in the first phase. The focus during this phase should not be on the motivations of participants, but only on the implications of the arguments.

The third and final phase formulates a solution. Through co-operation, participants arrive at a solution that maximises positive results for all.

There is however a central problem with the RIMS technique, since its application is limited to artificial situations, such as workshops or arbitration[80] proceedings, where all parties have agreed to abide by the technique's requirements. Continual attempts by one or more participating party to impose their own agenda(s), can seriously undermine the successful application of the RIMS technique. Thus, the technique's greatest strength is also its greatest weakness. Requiring the individuals or groups

[78] Rossouw 2002, 74 – 76; See also Rossouw 1994, 16
[79] Rossouw 2002, 76
[80] The results of arbitration will of course remain binding.

who take part, to submit only non-partisan suggestions, may be a tall order. Especially if there is a long history of animosity between the parties. To deal with this, the facilitator will have to discount certain arguments or proposals form the process, which could potentially lead to dissatisfaction on the part of those affected.

This concern notwithstanding, the RIMS technique has a valuable contribution to make as far as problem resolution, both moral and otherwise, is concerned. Its insistence on communication, divorced from specific influences, is also of specific interest to the corporate context, given that effective communication holds critical implications for productivity.[81]

6.9) Conclusion and summation.

As we have seen, the standard approaches to problem resolution are limited in their scope, due to their reliance on certain assumptions. Common to most of these approaches are the assumptions that, (a) decisions are made by managers, (b) in an objective manner and (c) only once all the relevant facts have been studied. This is however not necessarily the case.[82] Moreover, these approaches lack the flexibility and extended application of the ethical theories that have been discussed.

The ethical theories, for their part, all rely on a measure of subjective judgement on the part of those using them. This is most notably the case, when determining such factors as what exactly represents good results. The Ethos System deals with this concern by means of comparing results derived from different theories.

In the final analysis, a holistic approach to decision making and problem resolution would most likely prove to be the best option. Stated differently, both the traditional approaches and the ethical theories have a contribution to make. What exactly that contribution would be, depends on the situation.

The move away from the 'old company' has been viewed on an internal level, over the last three chapters. The discussion itself also shifted from broader issues of organisational culture, to more specific issues. From this discussion a number of

[81] Toffler 1986, 303
[82] Schminke 1998, 197

issues that are of importance to the central question of this thesis, have arisen. Central to these issues has been the internal effect of external market and social forces, motivating companies to internalise ethical practices, to the point at which true ethicality starts to emerge. This is, however, impeded by elements of the 'old company', that still linger.

It has also been shown, in this chapter, that proactive strategies and positions still need to be assisted by appropriate reactive measures. This is mainly due to two considerations. Firstly, no proactive strategy or position can account for all occurrences, thus, unanticipated situations may still arise. Secondly, avoiding conflict situations is not a functional solution, as this gives rise to a number of negative results.

Through the discussion in Part Three, we have observed a number of corporate strategies for dealing with the pressures brought on by globalisation. The discussions also exposed the 'old company' paradigm's tendency towards authoritarian management, as a prime source of negative employee sentiment, which could potentially lead to actions such as fraud.

With this, the main investigation in Part Three comes to an end. The following and final chapter will re-examine the work presented throughout this thesis, with special attention being paid to the manner in which an answer to the central question has been formulated. Chapter Seven will also present a short discussion on future themes to investigate.

Case study:
Ford Pinto*

Background.

In 1968 Ford President Lee Iacocca, devised a plan to regain market share in the subcompact class, which Ford had been losing to Japanese car makers. Ford would produce the Pinto, internally known as Lee's car, which would weigh 2000 pounds or less. The price range Iacocca aimed for, namely $2000, was extremely competitive. Ford however needed to act quickly, so the normal design and testing time of nearly four years was cut to two. The net result was that engineering had to play second fiddle to design.

The price and weight of the car made it ideally suited to Ford's intentions. To succeed, though, Ford had to act quickly. As a result, all post design changes had to be made on the factory floor at increased cost.

Automobile safety standards at that time required all motors to, by 1972, withstand a rear impact of up to 20 mph without the fuel tank rupturing. Furthermore, Federal regulators planed to raise the standard from 20 mph to 30 mph, by 1973. The Ford Pinto failed dismally, with the only models surviving impacts of more than 20 mph being those that had been modified in some way.[84] These modifications implied extra costs, coupled with a failure to meet the production schedule. Finally, a cost-benefit analysis was used to resolve the problem.

Fords used Federal figures on the costs related to injuries and deaths, in conjunction with their own accident predictions, to determine the financial implications of their situation. What is particularly disturbing, is the notion that a human life can have a price tag. Although this is not entirely correct, as the amount used reflects the cost of dying, relating to medical and other expenses, and not the worth of a human life. For

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* This case study was compiled with information gained from: Shaw & Barry 2001, 83 – 86; Harris, Pritchard & Rabins 2000, 136; 137; Velasquez 2002, 73 – 75

[84] The eventual standard of 30 mph therefore represented an even greater challenge.

the cost section, Ford simply used the amount it would cost to improve all the cars, which was a mere $11 per car.

Ford's calculations were as follows:[85]

Costs of implementing design changes: $11 x 12.5 million cars = $137.5 million

Cost of doing nothing: (180 deaths x $200 000) + (180 injuries x $67 000) + (2100 vehicles x $700) = $49.53 million

Consequently, the cost of fixing the cars far outweighed the projected costs of not doing it. Acting on this information, Ford put the Pinto on the market without any modification.

Ford publicly admits to 23 people dying as a result, but independent figures put the number closer to 500. Ford's own engineers, under sworn testimony, admitted that 95% of the deaths could have been avoided had the fuel tank been modified.

Lawsuits relating to the Pinto cost Ford nearly $7 million in damages alone, with the company also being charged with, but found not guilty of, criminal homicide. Furthermore, when the 30 mph limit was finally introduced in 1978, instead of the planned 1973, Ford had to recall all the older Pintos and retrofit them with new fuel tanks.

In response to the above, Ford still maintains that the Pinto was safe, for its time. In reality, though, there were more than forty foreign models available in the Pinto's class with safer fuel tanks. What Ford also does not publicly admit to, is that it actively lobbied to have the introduction of the 30 mph rear impact limit postponed.

[85] Figures from: Shaw & Barry 2001, 84; Velasquez 2002, 74. Velasquez contains two minor errors in its calculations. The base figures used were, however, correct, which is why the full and correct calculations are used here.

Discussion.

In Section 6.4.5 we not only discussed the functioning of a cost-benefit analysis, but two main criticisms were also levelled against it.[86] If we now return to those two criticisms, it becomes clear that the actions of Ford constitute a failure on both counts.

In the first instance, Ford's cost-benefit analysis was incorrect, since the actual monetary consequences of not fixing the cars far outweighed the projected figures. Not only did Ford incur unplanned legal costs, but more importantly, it was eventually forced to recall and refit all the cars.

On the second count, Ford also acted in a morally reprehensible manner. Deciding that it is acceptable to let people die due to bad automotive design, because it is cheaper than protecting them, is most definitely not morally justifiable. Even on utilitarian grounds, Ford's actions may have been wrong. As pointed out earlier, a full cost-benefit analysis requires proper stakeholder engagement, which Ford most definitely did not do. Furthermore, had Ford used comparative techniques, such as the Ethos System, the situation could also have been avoided.

Making decisions based on the wrong or incomplete information, can have major repercussions for a company's bottom-line. Unfortunately, a lack of ethicality, that is internalised ethics, sets the stage for such occurrences to be repeated, with the associate communication to the public of a negative stance towards their interests on the part of the company.[87]

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[86] 1) Since the costs and benefits analysed are yet to be realised, the figures used are only estimates. 2) Since all factors relating to the decision to be made are translated into monetary terms, the final analysis only shows numbers, discounting non-financial factors.

[87] White & Memory 1997, 267: "*Communication in organisations occurs through the information that gets transmitted and received, through the managerial behaviour that is exhibited and through the corporate policies and systems that are instituted.*"

Chapter Seven
Conclusion

7.1) Looking back.

In this final chapter we will take a look back at the six preceding chapters, not to recap all that was said, but rather to re-establish certain crucial points in reference to the three parts of this thesis. After which, the central question presented in Chapter One will be reconsidered. Chapter Seven and this thesis will then end with a look to the future, especially to those areas with the most potential for radical change.

Throughout the preceding six chapters, we have witnessed the drastic changes that are occurring the world over, including the manner in which they impact on the business environment. The primary explanation offered for this new global dispensation, is the phenomenon known as globalisation.

The following extended quote explains the nature of globalisation, the heart[1] of its nature being epitomised by perpetual change. "*It has now become something of a truism that we are functioning in a world fundamentally characterised by objects in motion. These objects include ideas and ideologies, people and goods, images and messages, technologies and techniques. This is a world of flows. It is also, of course, a world of structures, organisations, and other stable social forms. But the apparent stabilities that we see are, under close examination, usually our devices for handling objects characterised by motion. The greatest of these apparently stable objects is the nation-state, which is today frequently characterised by floating populations, transnational politics within national borders, and mobile configurations of technology and expertise.*"[2]

The effects of globalisation can clearly be seen in the business environment, in as much as it brings about a measure of uncertainty, concerning the topics discussed in

[1] The word 'heart' is used, as the concept 'foundation' would hold a connotation that is inherently opposed to the nature of globalisation.
[2] Appadurai 2001, 5

this thesis.[3] This is not to say that the discussions presented are questionable in any manner, merely that they are current and instead of definitive, as this is in any case an impossibility, given the changing nature of the subject matter. The final result of this change, if a final result is at all possible, remains uncertain. This uncertainty serves to undermine the formation of concrete positions, which in turn means that both corporate and stakeholder perceptions and positions are continuously changing, in order to adapt to new circumstances.

This constant change does not, as some might expect, make the formulation of strategies and positions totally impossible. Instead, such formulations are themselves only temporary, and thus subject to change along with everything else. This remains the case, even if the change associated with these structures and strategies, takes place at a greatly reduced rate. Therefore, a temporary, but stable, structure can be set up in order to deal with more rapidly changing objects or issues, referred to in the above quote as fluid.

Within this classification of fluid we find not only broader issues such as the global stock markets, but also more specific and sometimes inherently negatives issues, such as fraudulent practices. The model of stable, but potentially short lived, strategies that deal with fluid issues also explains the conventional approach to the prevention of fraud. Which brings us to the three central themes addressed throughout this thesis, with a view towards answering the central question of this thesis.[4]

The three themes are: an ongoing paradigm shift, proactive corporate ethics and the globalised economy. To discuss these themes separately would, however, constitute a severe underestimation of their interrelated nature. As a result, they will be examined concurrently through a review of each of this thesis' three parts.

Part one served as a general introduction and introduced two ideal states, namely, the 'old company' and the 'new company'. The current and ongoing paradigm shift in business thought and practices, represents the movement from the 'old' to the 'new company'. This movement was also shown to be driven by the new demands placed

[3] Appadurai 2001, 2
[4] To which we will return shortly.

on companies, by the globalised economy.[5] As companies face these challenges, they change in order to deal with a new situation. It is this change[6] which then constitutes a move towards a new business paradigm, and explains why change and ethicality[7] have featured as central subjects in every chapter.

Following this, Part Two showed that the primary source of changes is pressure on companies from external sources; pressure which can be addressed in a proactive manner, through the use of ethically grounded principles and procedures. This tendency, towards increased corporate ethicality, is also indicative of a move away from the 'old company'. To illustrate these points, Part Two examined both corporate social responsibility and varying forms of corporate communication, showing in each case that the 'old company' paradigm fails to meet the demands set by the globalised economy. Thus, necessitating changes which lead to the formation of a new paradigm.

Lastly, Part Three examined the three stated themes in relation to corporate culture and structure.[8] There too it was shown that a move towards greater ethicality had started, with a proactive position being yet again shown to outperform a reactionary one. So for example, it was established, in Chapter Four, that traditional fraud prevention strategies only prevent fraud from succeeding, and not from being attempted. Usually by means of informing companies of specific fraudulent practises, or developing strategies against these practices. This is analogous to an inoculation, with the inoculated individual being protected against a virus, while those without the inoculation (knowledge of the specific scheme) remain vulnerable. This strategy, of inoculation for some, does not truly threaten the existence of the virus; similarly, fraud continues. Changing corporate culture and structure, on the other hand, can undermine the conditions that are conducive to fraud. Undermining the conditions that lead to fraud is a considerably better option,[9] because it does not require knowledge of

[5] The term globalised also refers to the fact that a company does not have to trade globally to be affected by globalisation.
[6] The most profound of these changes are ethical in nature, or have an ethical connection. A typical example in this respect would be the concept of emancipation capitalism, as discussed in Section 5.5.1.
[7] As introduced in Chapter One, ethicality refers to the level to which a company has internalised ethics and ethical principles.
[8] With the addition of Chapter Six which will be discussed shortly.
[9] That is if a choice between the two had to be made, but a combined approach would most likely provide the best results. A conclusion which is supported by the variance in motivations for fraud, as discussed in Section 4.5.

specific fraudulent practices, as it targets the root of the problem. Stated differently, a proactive approach is taken, instead of a reactive one.

Ethically sound incentives are, however, not a cure-all that will magically fix any problem, which is why three central requirements for the corporate success of ethicality are made. Firstly a proactive and long-term stance must be adopted, since treating ethics as an afterthought or a reactionary measure will not succeed, as this limits ethics to little more than a public relations exercise. Which introduces the second requirement, ethics must be fully internalised and integrated into every level and structure of a corporation, otherwise, ethical initiatives from the board and senior management may be jeopardised by the manner in which they are conducted. So for instance, appointing a part-time ethics manager, as opposed to full-time, could foster the opinion amongst employees that ethics is merely the newest fad. Thus undermining the company's efforts.[10]

Thirdly and finally, it must be acknowledged that no proactive strategy, no matter how ethically sound or flexible, can possibly cater for all occurrences. This necessitates an added reactive focus on ethical or moral[11] problem solving, which was the focus of Chapter Six. Thus, a proactive approach to corporate ethicality can still be supplemented by certain reactive measures, in order to deal with the challenges presented by globalisation.

The effects of globalisation also go much further than calls for increased corporate ethicality, as globalisation is bringing new communities and ideas into contact with one another. A sterling example being that of religiously motivated or regulated investments. Just consider the following explanation of Islamic economics: "*Shari'a represents the rules of God. It forms a comprehensive plan for life. Islamic economics, with such a divine source, are not man-made, but are believed to be a way of worshiping God. ... Islamic economic teachings forbid only negative and destructive activities such as gambling, monopoly, usury, cheating and deception,*

[10] Landman, Punt & Painter-Morland 2002, 13
[11] As in Chapter One, no distinction will be made between the two concepts.

extortion, injustice, deceiving the gullible, selling items you don't own and making false markets."[12]

The 'old company' with its focus on short-term profit would, most likely, not have been able to come to terms with the specifics of such a system. The flexibility of the 'new company', on the other hand, makes it ideally suited to cater to such directives.

A number of general conclusions can now be reached. Both internally and externally, the practices and ideologies associated with the 'old company' are under increasing pressure from a number of sources. Common to all these forms of pressure is the 'old company' paradigm's inability to relate to the current globalised business context, which is most notably the case concerning issues of an ethical nature. This inability to relate to contemporary issues represents a direct obstacle to profit taking, given that the 'old company' paradigm no longer provides companies with an adequate understanding of the environment within which they operate. To deal with this situation, change is needed. This change is, however, not just a small adjustment in order to bring the 'old company' paradigm up to date. Instead, the discrepancy between the 'old company' paradigm and the contemporary business context is so great, that a total break with the 'old company' paradigm is necessitated. This break, in turn, leads to the formation of a different paradigm, referred to here as the 'new company'.

Furthermore, this movement towards the 'new company' paradigm is still in progress and it is therefore not possible to explicate exactly what this paradigm will look like. What can be stated though, is that since the 'new company' is intended to address the shortfalls of the 'old', it will have a considerably heightened awareness of ethical issues.

The move towards the 'new company' and away from the 'old company' was investigated not only for its own sake, but also in order to formulate an answer to the central question. This question, as introduced in Chapter One, is: *What are the core factors contributing to the formation of the new business paradigm and how do these*

[12] Arar 1998, 321

undermine the old paradigm; what are the challenges faced by this new paradigm, both internal and external; how are these challenges dealt with; and lastly, what advantage if any, does the new paradigm have over the old?

Formulating a short one-liner or even a paragraph, in order to answer this question is clearly not possible. Instead, the previous six chapters present a combined answer through their investigation of the current business environment, including the manner in which it provides companies with new challenges. The answer that will be provided here is thus, an amalgamation of the central principles involved in the preceding discussions.

This answer reads as follows: *The core factors that are prompting the formation of a new business paradigm, are related on various levels to the old paradigm's inability to contend with the current globalised market. The globalised market not only demands greater flexibility coupled with better customer service, it also affords society at large a major measure of influence on corporate conduct. These pressures mandate both internal and external corporate changes, involving new structures and strategies based on institutionalised ethicality. These changes move companies towards a new business paradigm, a paradigm which will enable them to interact with their globalised environment in a sustainable and profitable manner.*

This then, is the present situation. It is however, important to keep in mind that change will remain a constant for as long as globalisation continues. The future of globalisation is not easily predictable and no concrete attempt will be made here. The following section will, as an alternative, examine certain important issues that may influence the future development of the global community and thus also the global business environment.

7.2) Looking forward.

Of all the aspects of globalisation, change represents the greatest challenge when one considers possible future situations. Given that both technology[13] and society are subjected to change, nearly all attempts at predicting what the 'new company' would

[13] www.grc.nasa.gov/WWW/bpp/

eventually look like are questionable. This situation is further exasperated by the prevalent postmodern tendency to blur the lines between previously separate issues or states.[14]

Nevertheless, we can, as was shown earlier, deduce that the 'new company' will strive for a heightened level of ethicality. What cannot be deduced in this fashion, is what new societal or technological challenges might impact on the business environment, and how society as a whole will deal with these.[15] Although insight into these matters would be useful, such insight would still be of secondary importance when compared to the development of corporate structures and cultures that are able to adequately deal with future challenges. The development of such structures and cultures, represents a further aspect of the 'new company' which is already known.

As the 'old company' relinquishes its dominance and the 'new company' comes to the fore, a number of new areas for possible investigation will also be opened up. What all these areas will be is of course not yet know, but by considering the arguments presented throughout this thesis seven such areas can be identified. These seven are all related to the arguments presented here, but either fell outside the scope of this project or are not yet realised to an extent that would warrant inclusion here. The seven areas of possible future investigation are:

1. Ethicality within small, medium and micro enterprises.
2. Advanced or experimental forms of corporate organisation designed to deal with challenges such as those brought on by globalisation.
3. The future development, expansion and implementation of corporate governance principles.
4. The manner in which initiatives such as NEPAD are impacted on by globalisation and what this entails for the developing world.
5. The future implications of increased corporate ethicality for all forms of corporate communication
6. The possibility of globally standardised systems of corporate oversight.

[14] Kearney 1994, 299
[15] Tae-Chung 1994, 117 – 124

7. Mechanisms for guiding corporate culture on a positive trajectory, which are cognisant of issues such as emancipation capitalism.[16]

Fully investigating these seven issues would constitute a substantial undertaking, but the ultimate importance of each will be dictated by the future course of globalisation and corporate development. These two factors will of course also bring other areas of investigation to the fore, but even the continued influence of these two factors is yet to be decided as a myriad of other issues may come to dominate the future of the global business environment. What ever the outcome may be, it is certain that those companies who take ethicality seriously and are adequately prepared to deal with change, will be in a much better position to handle future challenges than those that are not.

As globalisation and the associated change continues, the gap between the 'old company' paradigm and the current business environment will continue to grow. It is therefore reasonable to believe that companies sticking to the 'old company' paradigm, will find it increasingly difficult to conduct a profitable and sustainable business. To solve, or avoid, these problems companies will have to start thinking and planning in new ways, a notion that is underscored by the following statement by Albert Einstein: "*today's problems cannot be solved by thinking the way we thought when we created them*".[17]

In conclusion, we can deduce that as human social and economic activity create new problems, the search for new answers must also continue. The cycle of new global challenges followed by new solutions, which in turn lead to new situations with unique problems, therefore, appears to be in perpetual motion. Thus finally removing the cornerstone of the 'old company' paradigm, namely: stable command and control.

[16] See Section 5.1.1.
[17] Khoza 2003, 21

APPENDIX A

Pettit's participant moral theory[1]

1. If one option is right and others wrong; then the agent ought to take the right one: to say it is right in such a context is to prescribe it or at least approve of it.
2. If one option is right and others wrong; then the right option is better in certain respects than the alternatives.
3. The rightness-relevant respects – the values – that serve to make one option better than others include such features as being fair, being honest, relieving need, being an act of friendship or loyalty, and so on.
4. Values vary in strength, so that the value displayed by one option – for example, that it is honest – may be overridden by a different value displayed by another: say, that it will prevent a murder; thus the dishonest option may be the right one.
5. A right option that is chosen because it is right will always be unobjectionable or justifiable; no one will be able to find good reason to blame the agent for taking it.
6. A number of options in any choice may sometimes be equally unobjectionable, even when one is better than others, even when one is an act of supererogatory merit. In such a case depending on context, the word "right" may be used loosely for any unobjectionable option in the set or more strictly for the best option.
7. There may be no right option in some hard choices; there may be no option which is unobjectionable, to go to the weak usage of "right," and no option that counts as best and deserves to be called right in the stronger sense.
8. A right option will prove to be more attractive to the agent than a wrong option to the extent that the agent sees it is better and does not suffer a malaise of the spirit, a weakness of will, or something of that kind.
9. The virtuous person is reliably disposed to recognise right options and to choose only such options.

[1] Pettit 1995, 107 – 108. This is a direct quote and no amendments have been made.

10. A uniquely right option will present itself as something that the agent has to do: as something that binds or obligates them.
11. If one option is right and another wrong then there must be some difference between them besides any difference in rightness and rightness-making respects; the options must be descriptively as well as evaluatively distinguishable. (Rightness is descriptively supervenient as it is said.)
12. If two choices and options correspond in all respects other than those involving particular individuals – if they correspond, for example, in everything other than the identity of the agent – then if one option is a right choice for the agent in the first case, the corresponding option is a right choice for the agent in the second. (Rightness is universalisable.)
13. There are various paradigms of right choice with which any user of the term will be familiar, even if there are few paradigms that are common to all.
14. If an option is right, or has any evaluative property, then everyone ought to believe that it is right or that it has that property; what is right or valuable in one perspective is valuable in all.
15. It is a matter of the greatest importance that an option is right or wrong, for the possibility of a decent human community depends on the possibility that what each does can be justified to others.

APPENDIX B

Solomon's eight rules for ethical thinking in business[1]

Rule No. 1: Consider other people's well-being, including the well-being of nonparticipants.

Rule No. 2: Think as a member of the business community and not as an isolated individual.

Rule No. 3: Obey, but do not depend solely on the law.

Rule No. 4: Think of yourself, and your company, as part of society.

Rule No. 5: Obey moral rules.

Rule No. 6: Think objectively.

Rule No. 7: Ask the question: "What sort of person would do such a thing?"

Rule No. 8: Respect the customs of others, but not at the expense of your own ethics.

[1] Solomon 1994, 41 – 43

APPENDIX C

Self-actualisation

Abraham Maslow (1908 – 1970) was one of the most prominent psychologists in the humanistic school, which endeavoured to understand the (human) subject as a whole, instead of viewing subsections of the whole in isolation. So, for instance, the humanistic approach held that human desires could only be understood within the context of the person as a whole. To explain human needs Maslow constructed a hierarchy of needs which forms the basis of his theory of self-actualisation.[1] Understanding what drives people to action is of obvious importance to business leaders, as such understanding provides one with valuable insight into both the community within which the company does business and the company's own work force. The diagram at the end of this discussion represents a graphical representation of Maslow's hierarchy of needs.[2]

Maslow contends that humans are driven to satisfy each of these needs from the bottom up, with self-actualisation being the last step. In short each of these needs can be explained as follows:

1) *Biological needs. Water, food, warmth, rest, avoidance of pain, sex, and so on.*
2) *Safety needs. Protection from physical exposure by means of adequate clothing and housing; protection from the social environment by ensuring one's security from crime and financial hardship.*
3) *Love and belongingness needs. Love and acceptance through the formation of friendships and intimate relationships, and by participation in social groups. Maslow suggested that the principal source of maladjustment in a well-fed and a securely housed society would be in the frustration of love and belongingness needs. When children's environments are loveless and harsh, they as adults may focus on gratifying the unfulfilled needs of childhood and be incapable of further progress.*

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[1] Möller 1995, 198 - 204
[2] Maslow 1998, xx

4) *Esteem needs. Competence, achievement, approval, recognition, status, prestige.*
5) *Self-actualisation. The development of our unique potentials and personal growth. Also at the highest level are the needs for cognitive understanding (novelty, exploration, and pursuit of knowledge) and aesthetic experience (music, art, and poetry).*[3]

This theory is of course not written in stone, just consider the many examples of people who actually risk the first rung of the hierarchy to reach self-actualisation or one of the other rungs.[4] Consider for example, a soldier who sacrifices his own life in order to save his comrades. The linear nature of Maslow's theory is therefore somewhat problematic, especially when measured against the postmodern tendencies of some of the other theories and strategies discussed in this thesis, such as web structures.

Furthermore, it is also possible that Maslow underestimated the extent to which his five steps are cultural constructs.[5] Stated differently, it is possible, with the exception of the first step,[6] that humans only experience these matters as needs because they have been socialised to do so. If this is the case, then humans can just as well be socialised to strive for different needs,[7] or to view Maslow's needs in a different order.

Such criticism not withstanding, Maslow's theory does offer some insights into the human psyche, which can be of service to corporate managers. Provided that one keep these criticisms in mind.

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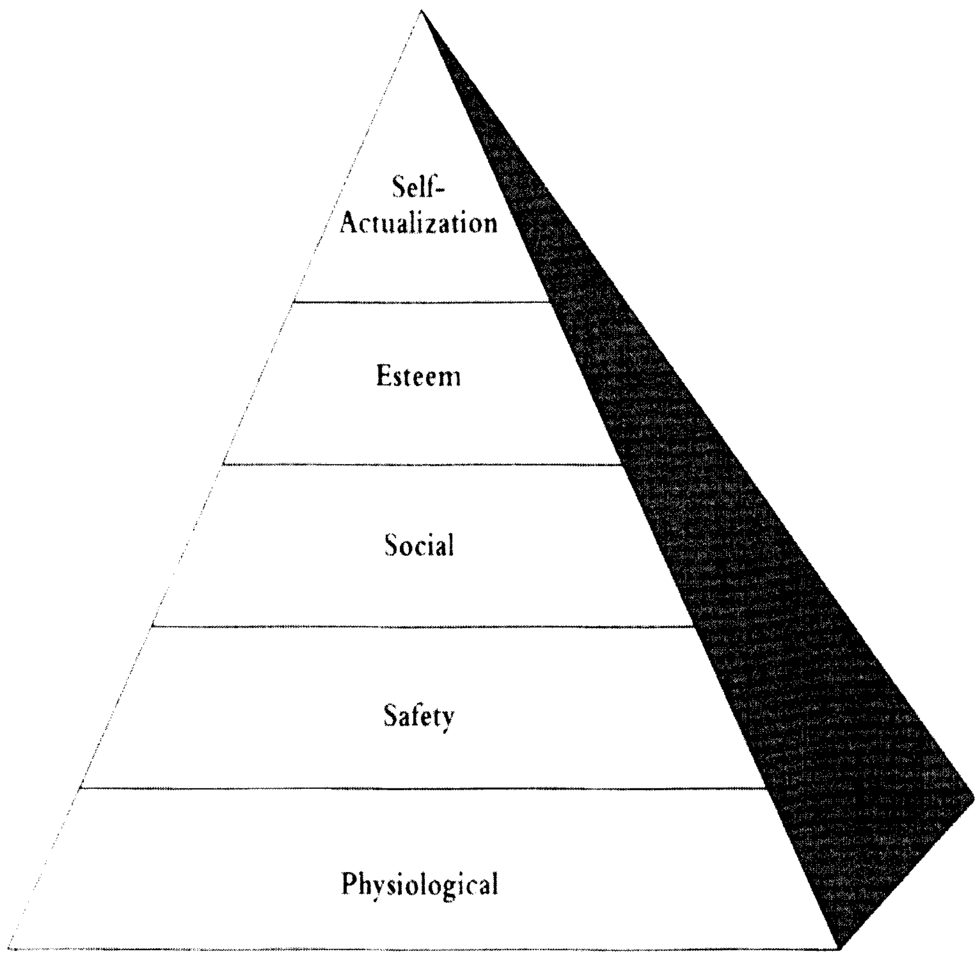
[3] Nevid, Rathus & Greene 1997, 56 – 57
[4] Louw & Edwards 1996, 454
[5] Möller 1995, 212
[6] Elements of the second step would also be excluded.
[7] This would also place a question mark behind the term needs.



Maslow's Hierarchy of Needs

APPENDIX D

A Guide to Conflict Management[1]

Foster Cooperative Context

- Develop realistic attitudes that working together cooperatively requires conflict management.
- Focus on working together to deal with the conflict.
- Work for win-win solutions
- Calculate the losses of continuing the conflict and the gains of ending it.

State and Explain Your Position

- Arrange a time and a place to discus that conflict.
- Identify ideas and feelings behind positions.
- Be hard on the problem, soft on the person.

Question and Understand Opposing Views

- Probe and ask questions.
- Put yourself in the other's shoes.
- Show respect and acceptance as you disagree with the opposing position.
- Follow the golden rule of conflict resolution using the approach you want others to use.

Integrate and Create Options

- Define the problem together.
- Be firm in furthering mutual needs, but flexible in how to do that.
- Brainstorm options.

[1] Tjosvold & Tjosvold 1995, 194 – 195

Agree and Shake

- Agree on an option.
- Reaffirm the agreement.

Reflect and Learn

- Give each other feedback and support.
- Celebrate.

Pitfalls to Avoid

- Seeing conflict as a problem that must be blamed on someone.
- Assuming every conflict is a fight to win.
- Focussing only on what you want.
- Conveying it is 'us versus them'.
- Assuming sole responsibility to resolve the conflict.
- Assuming it is the sole responsibility of the other to resolve the conflict.
- Repeating arguments in a louder voice.
- Surprising and overwhelming. (Do not hit your protagonists with surprise tactics in order to overwhelm them.)
- Hitting your protagonist hard to overcome, then running away to avoid being hit back.
- Returning every slight with a rebuke.
- Pretending to listen.
- Using the other's arguments only to strengthen your position.
- Assuming it is 'his way or mine'.
- Using 'either/or' fixed pie thinking.
- Equating success with getting your way.
- Gloating over your victory.

APPENDIX E

Central Extract from the South African Bill of Rights [1]

Equality

9. (1) Everyone is equal before the law and has the right to equal protection and benefit of the law.

(2) Equality includes the full and equal enjoyment of all rights and freedoms. To promote the achievement of equality, legislative and other measures designed to protect or advance persons, or categories of persons, disadvantaged by unfair discrimination may be taken.

(3) The state may not unfairly discriminate directly or indirectly against anyone on one or more grounds, including race, gender, sex, pregnancy, marital status, ethnic or social origin, colour, sexual orientation, age, disability, religion, conscience, belief, culture, language and birth.

(4) No person may unfairly discriminate directly or indirectly against anyone on one or more grounds in terms of subsection (3). National legislation must be enacted to prevent or prohibit unfair discrimination.

(5) Discrimination on one or more of the grounds listed in subsection (3) is unfair unless it is established that the discrimination is fair.

Human dignity

10. Everyone has inherent dignity and the right to have their dignity respected and protected.

Life

11. Everyone has the right to life.

Freedom and security of the person

12. (1) Everyone has the right to freedom and security of the person, which includes the right

a. not to be deprived of freedom arbitrarily or without just cause;
b. not to be detained without trial;

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[1] www.polity.org.za/govdocs/constitution/saconst.html; Act 108 1996 as amended, originally published in the Government Gazette Vol 378 No.17678; The Bill of Rights is Chpater Two in the South African Constitution.

c. to be free from all forms of violence from either public or private sources;
d. not to be tortured in any way; and
e. not to be treated or punished in a cruel, inhuman or degrading way.

(2) Everyone has the right to bodily and psychological integrity, which includes the right

a. to make decisions concerning reproduction;
b. to security in and control over their body; and
c. not to be subjected to medical or scientific experiments without their informed consent.

Slavery, servitude and forced labour

13. No one may be subjected to slavery, servitude or forced labour.

Privacy

14. Everyone has the right to privacy, which includes the right not to have

a. their person or home searched;
b. their property searched;
c. their possessions seized; or
d. the privacy of their communications infringed.

Freedom of religion, belief and opinion

15. (1) Everyone has the right to freedom of conscience, religion, thought, belief and opinion.

(2) Religious observances may be conducted at state or state-aided institutions, provided that

a. those observances follow rules made by the appropriate public authorities;
b. they are conducted on an equitable basis; and
c. attendance at them is free and voluntary.

(3)

a. This section does not prevent legislation recognising
    i. marriages concluded under any tradition, or a system of religious, personal or family law; or
    ii. systems of personal and family law under any tradition, or adhered to by persons professing a particular religion.
b. Recognition in terms of paragraph (a) must be consistent with this section and the other provisions of the Constitution.

Freedom of expression

16. (1) Everyone has the right to freedom of expression, which includes

a. freedom of the press and other media;
b. freedom to receive or impart information or ideas;
c. freedom of artistic creativity; and
d. academic freedom and freedom of scientific research.

(2) The right in subsection (1) does not extend to

a. propaganda for war;
b. incitement of imminent violence; or
c. advocacy of hatred that is based on race, ethnicity, gender or religion, and that constitutes incitement to cause harm.

Assembly, demonstration, picket and petition

17. Everyone has the right, peacefully and unarmed, to assemble, to demonstrate, to picket and to present petitions.

Freedom of association

18. Everyone has the right to freedom of association.

Political rights

19. (1) Every citizen is free to make political choices, which includes the right

a. to form a political party;
b. to participate in the activities of, or recruit members for, a political party; and
c. to campaign for a political party or cause.

(2) Every citizen has the right to free, fair and regular elections for any legislative body established in terms of the Constitution.

(3) Every adult citizen has the right

a. to vote in elections for any legislative body established in terms of the Constitution, and to do so in secret; and
b. to stand for public office and, if elected, to hold office.

Citizenship

20. No citizen may be deprived of citizenship.

Freedom of movement and residence

21. (1) Everyone has the right to freedom of movement.

(2) Everyone has the right to leave the Republic.

(3) Every citizen has the right to enter, to remain in and to reside anywhere in, the Republic.

(4) Every citizen has the right to a passport.

Freedom of trade, occupation and profession

22. Every citizen has the right to choose their trade, occupation or profession freely. The practice of a trade, occupation or profession may be regulated by law.

Labour relations

23. (1) Everyone has the right to fair labour practices.

(2) Every worker has the right

a. to form and join a trade union;
b. to participate in the activities and programmes of a trade union; and
c. to strike.

(3) Every employer has the right

a. to form and join an employers' organisation; and
b. to participate in the activities and programmes of an employers' organisation.

(4) Every trade union and every employers' organisation has the right

a. to determine its own administration, programmes and activities;
b. to organise; and
c. to form and join a federation.

(5) Every trade union, employers' organisation and employer has the right to engage in collective bargaining. National legislation may be enacted to regulate collective bargaining. To the extent that the legislation may limit a right in this Chapter, the limitation must comply with section 36(1).

(6) National legislation may recognise union security arrangements contained in collective agreements. To the extent that the legislation may limit a right in this Chapter, the limitation must comply with section 36(1).

Environment

24. Everyone has the right

a. to an environment that is not harmful to their health or well-being; and
b. to have the environment protected, for the benefit of present and future generations, through reasonable legislative and other measures that
    i. prevent pollution and ecological degradation;
    ii. promote conservation; and
    iii. secure ecologically sustainable development and use of natural resources while promoting justifiable economic and social development.

Property

25. (1) No one may be deprived of property except in terms of law of general application, and no law may permit arbitrary deprivation of property.

(2) Property may be expropriated only in terms of law of general application

a. for a public purpose or in the public interest; and
b. subject to compensation, the amount of which and the time and manner of payment of which have either been agreed to by those affected or decided or approved by a court.

(3) The amount of the compensation and the time and manner of payment must be just and equitable, reflecting an equitable balance between the public interest and the interests of those affected, having regard to all relevant circumstances, including

a. the current use of the property;
b. the history of the acquisition and use of the property;
c. the market value of the property;
d. the extent of direct state investment and subsidy in the acquisition and beneficial capital improvement of the property; and
e. the purpose of the expropriation.

(4) For the purposes of this section

a. the public interest includes the nation's commitment to land reform, and to reforms to bring about equitable access to all South Africa's natural resources; and
b. property is not limited to land.

(5) The state must take reasonable legislative and other measures, within its available resources, to foster conditions which enable citizens to gain access to land on an equitable basis.

(6) A person or community whose tenure of land is legally insecure as a result of past racially discriminatory laws or practices is entitled, to the extent provided by an Act of Parliament, either to tenure which is legally secure or to comparable redress.

(7) A person or community dispossessed of property after 19 June 1913 as a result of past racially discriminatory laws or practices is entitled, to the extent provided by an Act of Parliament, either to restitution of that property or to equitable redress.

(8) No provision of this section may impede the state from taking legislative and other measures to achieve land, water and related reform, in order to redress the results of past racial discrimination, provided that any departure from the provisions of this section is in accordance with the provisions of section 36(1).

(9) Parliament must enact the legislation referred to in subsection (6).

Housing

26. (1) Everyone has the right to have access to adequate housing.

(2) The state must take reasonable legislative and other measures, within its available resources, to achieve the progressive realisation of this right.

(3) No one may be evicted from their home, or have their home demolished, without an order of court made after considering all the relevant circumstances. No legislation may permit arbitrary evictions.

Health care, food, water and social security

27. (1) Everyone has the right to have access to

   a. health care services, including reproductive health care;
   b. sufficient food and water; and
   c. social security, including, if they are unable to support themselves and their dependants, appropriate social assistance.

(2) The state must take reasonable legislative and other measures, within its available resources, to achieve the progressive realisation of each of these rights.

(3) No one may be refused emergency medical treatment.

Children

28. (1) Every child has the right

   a. to a name and a nationality from birth;
   b. to family care or parental care, or to appropriate alternative care when removed from the family environment;
   c. to basic nutrition, shelter, basic health care services and social services;
   d. to be protected from maltreatment, neglect, abuse or degradation;
   e. to be protected from exploitative labour practices;
   f. not to be required or permitted to perform work or provide services that
      i. are inappropriate for a person of that child's age; or
      ii. place at risk the child's well-being, education, physical or mental health or spiritual, moral or social development;
   g. not to be detained except as a measure of last resort, in which case, in addition to the rights a child enjoys under sections 12 and 35, the child may be detained only for the shortest appropriate period of time, and has the right to be
      i. kept separately from detained persons over the age of 18 years; and
      ii. treated in a manner, and kept in conditions, that take account of the child's age;
   h. to have a legal practitioner assigned to the child by the state, and at state expense, in civil proceedings affecting the child, if substantial injustice would otherwise result; and
   i. not to be used directly in armed conflict, and to be protected in times of armed conflict.

(2) A child's best interests are of paramount importance in every matter concerning the child.

(3) In this section "child" means a person under the age of 18 years.

Education

29. (1) Everyone has the right

a. to a basic education, including adult basic education; and
b. to further education, which the state, through reasonable measures, must make progressively available and accessible.

(2) Everyone has the right to receive education in the official language or languages of their choice in public educational institutions where that education is reasonably practicable. In order to ensure the effective access to, and implementation of, this right, the state must consider all reasonable educational alternatives, including single medium institutions, taking into account

a. equity;
b. practicability; and
c. the need to redress the results of past racially discriminatory laws and practices.

(3) Everyone has the right to establish and maintain, at their own expense, independent educational institutions that

a. do not discriminate on the basis of race;
b. are registered with the state; and
c. maintain standards that are not inferior to standards at comparable public educational institutions.

(4) Subsection (3) does not preclude state subsidies for independent educational institutions.

Language and culture

30. Everyone has the right to use the language and to participate in the cultural life of their choice, but no one exercising these rights may do so in a manner inconsistent with any provision of the Bill of Rights.

Cultural, religious and linguistic communities

31. (1) Persons belonging to a cultural, religious or linguistic community may not be denied the right, with other members of that community

a. to enjoy their culture, practise their religion and use their language; and
b. to form, join and maintain cultural, religious and linguistic associations and other organs of civil society.

(2) The rights in subsection (1) may not be exercised in a manner inconsistent with any provision of the Bill of Rights.

Access to information

32. (1) Everyone has the right of access to

a. any information held by the state; and
b. any information that is held by another person and that is required for the exercise or protection of any rights.

(2) National legislation must be enacted to give effect to this right, and may provide for reasonable measures to alleviate the administrative and financial burden on the state.

Just administrative action

33. (1) Everyone has the right to administrative action that is lawful, reasonable and procedurally fair.

(2) Everyone whose rights have been adversely affected by administrative action has the right to be given written reasons.

(3) National legislation must be enacted to give effect to these rights, and must

a. provide for the review of administrative action by a court or, where appropriate, an independent and impartial tribunal;
b. impose a duty on the state to give effect to the rights in subsections (1) and (2); and
c. promote an efficient administration.

Access to courts

34. Everyone has the right to have any dispute that can be resolved by the application of law decided in a fair public hearing before a court or, where appropriate, another independent and impartial tribunal or forum.

Arrested, detained and accused persons

35. (1) Everyone who is arrested for allegedly committing an offence has the right

a. to remain silent;
b. to be informed promptly
    i. of the right to remain silent; and
    ii. of the consequences of not remaining silent;
c. not to be compelled to make any confession or admission that could be used in evidence against that person;
d. to be brought before a court as soon as reasonably possible, but not later than
    i. 48 hours after the arrest; or

ii. the end of the first court day after the expiry of the 48 hours, if the 48 hours expire outside ordinary court hours or on a day which is not an ordinary court day;

e. at the first court appearance after being arrested, to be charged or to be informed of the reason for the detention to continue, or to be released; and
f. to be released from detention if the interests of justice permit, subject to reasonable conditions.

(2) Everyone who is detained, including every sentenced prisoner, has the right

a. to be informed promptly of the reason for being detained;
b. to choose, and to consult with, a legal practitioner, and to be informed of this right promptly;
c. to have a legal practitioner assigned to the detained person by the state and at state expense, if substantial injustice would otherwise result, and to be informed of this right promptly;
d. to challenge the lawfulness of the detention in person before a court and, if the detention is unlawful, to be released;
e. to conditions of detention that are consistent with human dignity, including at least exercise and the provision, at state expense, of adequate accommodation, nutrition, reading material and medical treatment; and
f. to communicate with, and be visited by, that person's
   i. spouse or partner;
   ii. next of kin;
   iii. chosen religious counsellor; and
   iv. chosen medical practitioner.

(3) Every accused person has a right to a fair trial, which includes the right

a. to be informed of the charge with sufficient detail to answer it;
b. to have adequate time and facilities to prepare a defence;
c. to a public trial before an ordinary court;
d. to have their trial begin and conclude without unreasonable delay;
e. to be present when being tried;
f. to choose, and be represented by, a legal practitioner, and to be informed of this right promptly;
g. to have a legal practitioner assigned to the accused person by the state and at state expense, if substantial injustice would otherwise result, and to be informed of this right promptly;
h. to be presumed innocent, to remain silent, and not to testify during the proceedings;
i. to adduce and challenge evidence;
j. not to be compelled to give self-incriminating evidence;
k. to be tried in a language that the accused person understands or, if that is not practicable, to have the proceedings interpreted in that language;
l. not to be convicted for an act or omission that was not an offence under either national or international law at the time it was committed or omitted;
m. not to be tried for an offence in respect of an act or omission for which that person has previously been either acquitted or convicted;

n. to the benefit of the least severe of the prescribed punishments if the prescribed punishment for the offence has been changed between the time that the offence was committed and the time of sentencing; and
o. of appeal to, or review by, a higher court.

(4) Whenever this section requires information to be given to a person, that information must be given in a language that the person understands.

(5) Evidence obtained in a manner that violates any right in the Bill of Rights must be excluded if the admission of that evidence would render the trial unfair or otherwise be detrimental to the administration of justice.

APPENDIX F

Ethical theories

Slote[1] explains deontic and aretaic theories as follows:

"*An ethics of rules will typically characterise acts as morally right or wrong, morally permissible or obligatory, depending on how they accord with appropriate rules. Such epithets are called "deontic" (from the Greek word for necessity), and they contrast with another class of ethical epithets where there is less immediate or ultimate connection with the rules, namely, "aretaic" (from the Greek word for excellence or virtue) ethical terms like "morally good," "admirable," "virtuous." Virtue ethics makes primary use of aretaic terms in its ethical characterisations, and it either treats deontic epithets as derivative from the aretaic or dispenses with them altogether. Thus an ethics of virtue thinks primarily in terms of what is noble or ignoble, admirable or deplorable, good or bad, rather than in terms of what is obligatory, permissible or wrong, and together with the focus on the (inner character of the) agent.*"

Kant's categorical imperative:[2]

"*There are two sorts of imperative, hypothetical and categorical. The hypothetical imperative says: If you whish to achieve a certain end, act in such and such a way. The categorical imperative says: No matter what end you wish to achieve, act in such and such a way. There are many hypothetical imperatives, because there are many different ends which humans my set themselves. There is only one categorical imperative: the imperative of morality. The categorical imperative is the requirement to conform with the pure universality of law. There is therefore only a single categorical imperative and this is: Act only on that maxim through which you can at the same time will that it should become a universal law.*"

[1] Slote 1999, 177
[2] Kenny 1997, 191

The golden rule.[3]

- Christian version: "*Treat others as you would like them to treat you.*" (Luke 6:31, New English Bible).
- Hindu version: "*Let not any man do unto another any act that he wisheth not done to himself by others, knowing it to be painful to himself.*" (Mahabharata, Shanti Parva, cclx.21).
- Confucian version: "*Do not do to others what you would not want them to do to you.*" (Analects, Book xii, #2).
- Buddhist version: "*Hurt not others with that which pains yourself.*" (Udanavarga, v. 18).
- Jewish version: "*What is hateful to yourself do not do to your fellow man. That is the whole of the Torah.*" (Babylonian Talmud, Shabbath 31a).
- Muslim version: "*No man is a true believer unless he desires for his brother that which he desires for himself.*" (Hadith, Muslim, imam 71 – 72).

[3] Harris, Pritchard & Rabins 2000, 86

APPENDIX G
Microsoft Standards of Business Conduct

Microsoft Standards of Business Conduct

Great People with Great Values

May 15, 2005

This online version of Microsoft's Standards of Business Conduct has been modified from the original version distributed to our employees. The references to some internal resources and electronic links have been changed to facilitate communications from the public at large.

On This Page

Letter from Steven A. Ballmer, Chief Executive Officer

Dear Fellow Employee:

Microsoft aspires to be more than just a good company—it aspires to be a great company. What will make us great is our commitment to our mission of enabling people and businesses throughout the world to realise their full potential.

Achieving our mission isn't just about building innovative technology. It's also about who we are as a company and as individuals, how we manage our business internally, and how we think about and work with customers, partners, governments, vendors, and communities.

The global business environment is continuously changing and demanding more from us as a company and as employees. Not only does the world expect us to deliver the best products and services, it expects us also to conduct ourselves ethically and responsibly.

We know it's not enough to just do the right things; we have to do them in the right way. The way that we accomplish our work is as important as the work itself. It's essential that we conduct ourselves at all times with integrity and in full compliance with the laws and regulations that govern our global business activities.

The Standards of Business Conduct are an extension of Microsoft's values and reflect our commitment to ethical business practices and regulatory compliance. They summarise the principles and policies that guide our business activities and they provide information about Microsoft's Business Conduct and Compliance Program. They are not meant to replace our detailed policies; rather they are statements of our principles in a number of important areas.

As a Microsoft employee, you are responsible for fully understanding and complying with the Standards of Business Conduct, applicable government regulations, and Microsoft's policies and guidelines. There should be no exceptions to this requirement.

We have ambitious business plans and an inspiring mission to guide us. These Standards of Business Conduct and Microsoft's Business Conduct and Compliance Program exist to provide you with information, education, and resources to help you make good, informed business decisions and to act on them with integrity. Doing so will help ensure that Microsoft will always be a great company with great people and great values.

Steven A. Ballmer [signature]
Chief Executive Officer

Microsoft Values

- Integrity and honesty.
- Passion for customers, partners, and technology.
- Open and respectful with others and dedicated to making them better.
- Willingness to take on big challenges and see them through.
- Self-critical, questioning, and committed to personal excellence and self-improvement.
- Accountable for commitments, results, and quality to customers, shareholders, partners, and employees.

Why Microsoft Has Standards of Business Conduct

As responsible business leaders, it is not enough to intend to do things right, we must also do them in the right way. That means making business decisions and taking appropriate actions that are ethical and in full compliance with legal requirements. As we make these decisions, Microsoft's values must shine through in all our interactions. The Standards of Business Conduct are an extension of Microsoft's values and reflect our continued commitment to ethical business practices and regulatory compliance.

By following the guidance provided in this publication, we are acknowledging our individual and collective responsibilities to manage our business activities with integrity as we pursue our mission of enabling people and businesses throughout the world to realise their full potential.

How to Use the Standards of Business Conduct

Microsoft's Standards of Business Conduct summarise the regulatory requirements and business practices that guide our decision making and business activities. The Standards contain basic information about our policies as well as information about how to obtain guidance regarding a particular business practice or compliance concern. It is essential that you thoroughly review this publication and make a commitment to uphold its requirements.

The Standards of Business Conduct are not intended to cover every issue or situation you may face as a Microsoft employee. Nor does it replace other more detailed policies and guidelines. You should use the Standards as a reference guide in addition to Microsoft's policies and guidelines, including the Employee Handbook, required for your specific job. Microsoft reserves the right in its sole discretion to modify and/or eliminate any of the Standards' contents without prior notice. Individual business units may also adopt standards of professional conduct for their areas. It is your responsibility to be fully aware of these Standards and follow them.

If you need details on a specific policy, you may contact the compliance team at buscond@microsoft.com. If you need guidance regarding a business practice or compliance issue or wish to report questionable behaviour and/or a possible violation, talk to your immediate supervisor, manager, another member of management, your Human Resources Generalist, or your Law and Corporate Affairs contact.

You may also call the Business Conduct Line at 1-877-320-MSFT (6738). If you are calling from outside the United States, you may make a collect call to the Business Conduct Line by accessing an international operator and asking to place a collect call to 1-704-540-0139. The Business Conduct Line is a dedicated, toll-free phone line that is available to you 24 hours a day, 7 days a week, 365 days a year. It is operated by an external third-party vendor that has trained professionals to take your calls, in confidence, and report your concerns to the Microsoft Director of Compliance for appropriate action. Your phone calls to the Business Conduct Line may be made anonymously.

If you are a Microsoft employee or vendor without access to our corporate intranet and wish to send a confidential e-mail to the Director of Compliance, you may do so by e-mailing the Business Conduct and Compliance alias (buscond@microsoft.com). A confidential e-mail may be delivered via the Internet by e-mailing msft.buscond@alertline.com. These e-mails will be received by a third-party vendor, who will remove your contact information prior to forwarding a summary of the e-mail to the Office of Legal Compliance.

You may also send a letter to the Director of Compliance at Microsoft Corporation, Law and Corporate Affairs, One Microsoft Way, Redmond, WA 98052 or send a confidential fax to 1-425-705-2985. Letters and faxes sent to the Director of Compliance may be submitted anonymously if you choose to do so.

If you have a concern regarding a questionable accounting or auditing matter and wish to submit the concern confidentially or anonymously, you may do so by sending an e-mail to msft.buscond@alertline.com, calling the Business Conduct Line, or sending a letter or fax to the Director of Compliance as outlined above.

Microsoft will handle all inquiries discreetly and make every effort to maintain, within the limits allowed by the law, the confidentiality of anyone requesting guidance or reporting questionable behaviour and/or a possible violation.

Compliance with the Standards of Business Conduct

The Microsoft Standards of Business Conduct are a general guide to the company's standards of business practices and regulatory compliance. Its requirements apply to Microsoft Corporation, to all subsidiaries, or affiliates in which Microsoft Corporation directly or indirectly owns more than 50 percent of the voting control ("Controlled Affiliates"), and to all directors, officers, and employees of each. All references to "Microsoft" include Microsoft Corporation and all Controlled Affiliates unless otherwise specified. All references to "employees" include directors, officers, and employees of Microsoft Corporation and it subsidiaries or affiliates.

Failure to read and/or acknowledge the Standards of Business Conduct does not exempt an employee from his/her responsibility to comply with the Standards of Business Conduct, applicable laws, regulations, and all Microsoft policies and guidelines that are related to his/her job.

Microsoft is a global company, and our business operations are subject to the laws of many different countries. Microsoft employees doing business internationally must comply with all applicable laws and regulations and uphold the Standards of Business Conduct at all times. Cultural differences or local laws and customs may require a different interpretation of our Standards. If this situation arises, always consult your manager, Law and Corporate Affairs, or the Director of Compliance before taking any action.

The Standards are not intended to and do not create an employment contract, and do not create any contractual rights between Microsoft and its employees or create any express or implied promise for specific treatment in specific situations. Your employment relationship with Microsoft can be terminated at any time for any reason with or without cause unless otherwise required by local laws outside the United States or a written contract signed by a vice president.

Our Commitment: Integrity in All Our Interactions

Each day we interact with a variety of individuals and groups—including our customers, partners, competitors, co-workers, shareholders, vendors, government and regulatory agencies, and the communities in which we operate. We are committed to interacting with all of these audiences in a respectful, ethical manner and in full compliance with all regulatory requirements.

Microsoft's Standards of Business Conduct

We manage our business in full compliance with all laws and regulatory requirements.

Regulatory Compliance: We are aware of and strictly obey the laws and regulations that govern the global management of our business. We are responsible for understanding these laws and regulations as they apply to our jobs and for preventing, detecting, and reporting instances of non-compliance to a member of Microsoft management, Human Resources, Law and Corporate Affairs, the Director of Compliance, and/or the Business Conduct Line. There are no circumstances at Microsoft that would allow us to disregard any law or regulatory requirement in the conduct of our business, and no such activity will be tolerated.

Lobbying: We recognise our right and responsibility to lobby on behalf of issues that affect our company and business operations. We conduct our lobbying activities in full compliance with the laws and regulations governing these activities.

Political Activities and Contributions: Microsoft employees are encouraged to exercise their right to participate in political activities. Any decision to become involved is entirely personal and voluntary. Employees' political activities are done on their own time and with their own resources. We do not represent ourselves as acting on behalf of and/or speaking for Microsoft without permission from Law and Corporate Affairs.

Regulatory Investigations, Inspections, and Inquiries: We are direct, honest, and truthful in our discussions with regulatory agency representatives and government officials. During investigations, inspections, and inquiries we work with Microsoft's Law and Corporate Affairs members and cooperate by responding to appropriate requests for information.

International Business Activities: Microsoft acknowledges and respects the diverse cultures, customs, and business practices it encounters in the international marketplace. Microsoft will comply with both the applicable U.S. laws and regulations that govern its operations and local laws wherever it does business.

Sensitive Payments: Microsoft complies with the anti-corruption laws of the countries in which it does business, including the United States Foreign Corrupt Practices Act ("FCPA"). In full compliance with the FCPA, Microsoft and its agents/partners/representatives will not make any direct or indirect payments or promises of payment to foreign government officials for the purpose of inducing the individual to misuse his/her position to obtain or retain Microsoft business.

Anti-Boycott Requirements: Microsoft complies with U.S. law that prohibits participation in international boycotts that are not sanctioned by the U.S. government.

Export Control: In order to protect U.S. national security, implement U.S. foreign policy, and preserve scarce resources, the United States government restricts the export of certain technology and products, including certain computer software and technical goods and data. We strictly observe all restrictions placed on the export and re-export of a U.S. product or component of a product, good, service, or technical data.

Fair Competition and Antitrust: As a global business, we encounter laws and regulations designed to promote fair competition and encourage ethical and legal behaviour among competitors. Antitrust laws and fair competition laws generally prohibit any activity that restrains free trade and limits competition. We conduct our business in full compliance with these laws.

We build and maintain the trust and respect of our customers, consumers, partners, and shareholders.

Responsible Leadership: We manage our business responsibly in order to maintain the confidence, respect, and trust of our customers, consumers, partners, shareholders, and other audiences. We are committed to acting with integrity, investing in new product development, being responsive and accountable to our customers and partners, and remaining a leader in our field. We understand the responsibility that comes with being a worldwide technology and business leader and accept our unique role in both our industry and the global business community.

Product and Service Quality: Microsoft's products and solutions are developed and managed to meet the expectations of our customers, consumers, and partners for high quality and exceptional service. We continually seek new ways to improve our products, service, and responsiveness.

Communication: We establish and maintain clear, honest, and open communications; listen carefully; and build our relationships on trust, respect, and mutual understanding. We are accountable and responsive to the needs of our customers, consumers, and partners and take our commitments to them seriously. Our advertising, sales, and promotional literature seeks to be truthful, accurate, and free from false claims. We provide our shareholders with timely and appropriate information subject only to competitive and legal constraints.

Obtaining Competitive Information: Microsoft has an obligation, and is entitled, to keep up with developments in our industry, including obtaining information about our competitors. We obtain information about our competitors through honest, ethical, and legal methods.

Fair Information Practices: Our business is built around technologies to manage information, and we treat that information with confidentiality and integrity. We are committed to creating a trustworthy environment for Internet users, and continually striving to protect their online privacy is at the core of this commitment. We have adopted privacy practices, developed technological solutions to empower individuals to help protect their online privacy, and continue to educate consumers about how they can use these tools to manage their personally identifiable information while they use the Internet.

Vendors: Microsoft vendors must adhere to the highest standards of ethical behaviour and regulatory compliance and operate in the best interest of Microsoft. Vendors are expected to provide high-quality services and products while maintaining flexibility and cost-effectiveness. All vendors are required to read and comply with the Microsoft Vendor Code of Conduct and, when appropriate, train their employees and representatives to ensure that they are aware of Microsoft's expectations regarding their behaviour. We do not engage in any unethical or illegal conduct with our vendors. We do not accept incentives such as kickbacks or bribes in return for conducting business with them.

We are responsible stewards in the use, protection, and management of Microsoft's assets.

Financial Integrity: We honestly and accurately record and report all business information. We comply with all local, state, and federal laws regarding record completion and accuracy. We require that all financial transactions are executed in accordance with management's authorisation, and are recorded in a proper manner in order to maintain accountability for Microsoft's assets. Our financial information reflects only actual transactions and is in compliance with Microsoft and other applicable accounting practices.

Use and Protection of Assets: We wisely use and protect the assets of the company, including property (both physical and intellectual), supplies, consumables, and equipment. We use these assets exclusively for Microsoft's business purposes.

Fiscal Responsibility: Microsoft employees exercise good stewardship over and spend Microsoft's funds in a responsible manner.

Use of Information Technology: Use of company-provided information technology and systems and access to its contents are authorised for legitimate Microsoft business-related purposes. At all times, we should use good judgment and common sense; conduct ourselves ethically, lawfully, and professionally; and strictly follow all authorisation protocols while accessing and using company-provided information technology and its contents. In using these company assets and systems, we do not create, access, store, print, solicit, or send any material that is intimidating, harassing, threatening, abusive, sexually explicit, or otherwise offensive or inappropriate, nor do we send any false, derogatory, or malicious communications.

Intellectual Property: We comply with the laws and regulations that govern the rights to and protection of our own and others' copyrights, trademarks, patents, trade secrets, and other forms of intellectual property.

Creation, Retention, and Disposal of Records and Information Assets: We create, retain, and dispose of our business records and information assets, both written and electronic, as part of our normal course of business in full compliance with all Microsoft policies and guidelines, and all regulatory and legal requirements.

Confidential and Proprietary Information: We respect our ethical and legal responsibilities to protect Microsoft's confidential and proprietary non-public information and communicate it only as necessary to conduct Microsoft's business. We do not use this information for our personal advantage or for non-Microsoft business use, and maintain this confidentiality even after Microsoft no longer employs us.

Third-Party Software: We use software and other content information only in accordance with their associated licenses and/or terms of use. We prohibit the making or using of copies of non-licensed copyrighted material, including software, documentation, graphics, photographs, clip art, animation, movie/video clips, sound, and music.

Insider Information and Securities Trading: In the course of doing business for Microsoft or in discussions with one of its customers, vendors, or partners, we may become aware of material non-public information about that organisation. Information is considered "material" if it might be used by an investor to make a decision to trade in the public securities of the company. Individuals who have access to this type of information are called "insiders." We only discuss this information on a limited, strict "need to know" basis internally, and do not share it with anyone outside Microsoft. We do not buy or sell the public securities of a company, including our own, if we have such information, and we do not share ("tip") this information with others. Because of the extremely sensitive nature of and severe penalties associated with "insider trading" and "tipping," contact Microsoft's Law and Corporate Affairs before you buy or sell public securities in situations that could be of this nature.

Conflicts of Interest: Microsoft employees are expected to act at all times in Microsoft's best interests and to exercise sound judgment unclouded by personal interests or divided loyalties. Both in the performance of our duties for Microsoft and our outside activities, we seek to avoid the appearance of, as well as an actual, conflict of interest.

Gifts and Entertainment: Microsoft policy and practice encourage the use of good judgment, discretion, and moderation when giving or accepting gifts or entertainment in business settings. Gift giving and entertainment practices may vary in different cultures; however, any gifts and entertainment given or received must be in compliance with law, must not violate the giver's and/or receiver's policies on the matter, and be consistent with local custom and practice. We do not solicit gifts, entertainment, or favours of any value from persons or firms with which Microsoft actually or potentially does business. Nor do we act in a manner that would place any vendor or customer in a position where he/she may feel obligated to make a gift, provide entertainment, or provide personal favours in order to do business or continue to do business with Microsoft.

Purchasing Decisions and Practices: In our purchasing decisions, negotiations, contract development, and contract administration we comply with the applicable laws and regulations that govern those relationships.

We promote a diverse, cooperative, and productive work environment.

Openness, Honesty, and Respect: In our relationships with each other, we strive to be open, honest, and respectful in sharing our ideas and thoughts, and in receiving input.

Diversity: Microsoft promotes and supports a diverse workforce at all levels of the company. It is our belief that creating a work environment that enables us to attract, retain, and fully engage diverse talents leads to enhanced innovation and creativity in our products and services.

Equal Employment Opportunity: Microsoft promotes a cooperative and productive work environment by supporting the cultural and ethnic diversity of its workforce and is committed to providing equal employment opportunity to all qualified employees and applicants. We do not unlawfully discriminate on the basis of race, colour, sex, sexual orientation, religion, national origin, marital status, age, disability, or veteran status in any personnel practice, including recruitment, hiring, training, promotion, and discipline. We take allegations of harassment and unlawful discrimination seriously and address all such concerns that are raised regarding this policy.

Safety and Health: A safe and clean work environment is important to the well-being of all Microsoft employees. Microsoft complies with applicable safety and health regulations and appropriate practices.

We are responsible, caring members of the global community.

Citizenship and Community Service: We have a strong and demonstrated commitment to the improvement of society as well as the communities we serve and in which we operate. We encourage the support of charitable, civic, educational, and cultural causes. Our contributions include cash, volunteer time, software, and technical assistance.

Respect for the Environment: Microsoft respects the environment and protects our natural resources. We comply with all laws and regulations regarding the use and preservation of our land, air, and water.

Microsoft's Business Conduct and Compliance Program

Administration and Enforcement

Microsoft's Department of Law and Corporate Affairs is responsible for the overall administration of the company's Business Conduct and Compliance Program and for providing employees with resources and materials to assist them in conducting their business activities in a legal and ethical manner. In administering the program, Law and Corporate Affairs works closely with Finance, Human Resources, Internal Audit, and Security.

The General Counsel serves as the company's Chief Compliance Officer and has overall responsibility for the management of the program. The General Counsel reports directly to the CEO and, for this purpose, to the Audit Committee of the Board of Directors. The General Counsel oversees directly an Office of Legal Compliance (OLC). The Director of Compliance, who is part of the Office of Legal Compliance, reports to the Chief Compliance Officer and the Audit Committee of the Board of Directors and has the responsibility for the day-to-day administration of the Business Conduct and Compliance Program. This responsibility includes, but is not limited to, applying the Standards to specific situations in which questions may arise and interpreting the Standards in a particular situation.

The Standards of Business Conduct and the Business Conduct and Compliance Program are endorsed by and have the full support of Microsoft's Board of Directors.

Violations of Microsoft's Standards of Business Conduct cannot and will not be tolerated. Consequences for such violations may include disciplinary action up to and including termination of employment. Individuals who have wilfully failed to report known violations will also be subject to disciplinary action.

Resources for Guidance and Reporting

It is your right and your responsibility to obtain guidance about a business practice and/or compliance issue when you are uncertain about what action you should take and to report instances of questionable behaviour and/or possible violations of the Standards of Business Conduct.

If you need details on a specific policy, you may e-mail our compliance team at buscond@microsoft.com. If you need guidance regarding a business practice or compliance issue or wish to report questionable behaviour and/or a possible violation, talk to your immediate supervisor, manager, another member of management, your Human Resources Generalist, or your Law and Corporate Affairs contact.

You may also call the Business Conduct Line at 1-877-320-MSFT (6738). If you are calling from outside the United States, you may make a collect call to the Business Conduct Line by accessing an international operator and asking to place a collect call to 1-704-540-0139. The Business Conduct Line is a dedicated, toll-free phone line that is available to you 24 hours a day, 7 days a week, 365 days a year. It is operated by an external third-party vendor that has trained professionals to take your calls, in confidence, and report your concerns to the Microsoft Director of Compliance for appropriate action. Your phone calls to the Business Conduct Line may be made anonymously.

If you are a Microsoft employee or vendor and wish to send a confidential e-mail to the Director of Compliance, you may do so by e-mailing the compliance team at buscond@microsoft.com. A confidential e-mail may be delivered via the Internet by e-mailing msft.buscond@alertline.com. These e-mails will be received by a third-party vendor, who will remove your contact information prior to forwarding a summary of the e-mail to the Office of Legal Compliance.

You may also send a letter to the Director of Compliance at Microsoft Corporation, Law and Corporate Affairs, One Microsoft Way, Redmond, WA 98052 or send a confidential fax to 1-425-705-2985. Letters and faxes sent to the Director of Compliance may be submitted anonymously if you choose to do so.

If you have a concern regarding a questionable accounting or auditing matter and wish to submit the concern confidentially or anonymously, you may do so by sending an e-mail to msft.buscond@alertline.com, calling the Business Conduct Line, or sending a letter or fax to the Director of Compliance as outlined above.

Microsoft will handle all inquiries discreetly and make every effort to maintain, within the limits allowed by the law, the confidentiality of anyone requesting guidance or reporting questionable behaviour and/or a possible violation.

Microsoft will not tolerate any retribution or retaliation taken against any employee who has, in good faith, sought out advice or has reported questionable behaviour and/or a possible violation. However, if any employee makes a knowingly false report of questionable behaviour and/or a possible violation for the purpose of harming another individual, that employee will be subject to disciplinary action.

Our Responsibilities

All Microsoft employees are accountable and responsible for fully understanding and complying with the Standards of Business Conduct, applicable laws, regulations, and all Microsoft policies and guidelines that are related to their jobs. In fulfilling these responsibilities each employee must:

- Read, understand, and comply with the Standards of Business Conduct, all applicable laws, regulations, and all Microsoft policies and guidelines that are related to his/her job.
- Participate in training and educational programs/events required for his/her job.
- Obtain guidance for resolving a business practice or compliance concern if he/she is uncertain about how to proceed in a situation.
- Recognise and report possible violations of the Standards of Business Conduct, policies, guidelines, applicable laws, and regulatory requirements for resolution.
- Cooperate fully in any investigation.
- Make a commitment to conduct Microsoft's business with integrity and in full compliance with all applicable laws and regulatory requirements.

APPENDIX H

EXTENDED TABLE OF CONTENTS

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