

# How Sound is Business Ethics?

by David Vogel

The moral standards of industry and commerce have remained remarkably constant over centuries.

WHILE both public and scholarly interest in business ethics have increased significantly over the last decade, the subject itself is not new; in fact, business ethics is an integral part of the Western ethical tradition. The public has been concerned with the ethics of business ever since a market economy began in the West more than 750 years ago.

Unfortunately, most contemporary writing on business ethics is ahistorical. Aside from the obligatory references to Kant and Mill, one rarely finds any serious discussion of concepts or ideas that date back more than a few decades.

The relevant writings of Aristotle and of the Catholic and Protestant theologians who thought long and hard about the ethics of business are rarely cited.

One also finds remarkably few references in the contemporary business-ethics literature to the works of scholars such as Max Weber or contemporary political thinkers Albert Hirschman and Michael Walzer—all of whom have written extensively about the historical roots of capitalism as an ethical system.

The emergence of capitalism in 16th-century Europe was closely associated with the Protestant Reformation. In an important sense, Protestantism made business ethics possible. To the extent that medieval Catholic theology held that money making was morally suspect, it could not establish moral standards for its pursuit.

And Thomas Aquinas in the 13th century believed that most forms of trade conducted for profit were inherently immoral, holding that "he who in trading sells a thing for more than he paid for it must have paid less than it was worth or be selling it for more."

If an activity is regarded as inherently immoral, the only moral course of action is to disengage from it entirely. The contemporary moral case against such business activities as investing in repressive countries, manufacturing and marketing cigarettes, or producing strategic weapons represents an echo of the more sweeping medieval case against finance in particular and the pursuit of profit in general.

After all, if their activity was thought to be immoral to begin with, why should they have tried to perform it ethically? As the sociologist Paul Blumberg notes, pre-Reformation capitalism was rooted in a "rampant individualism which knew few scruples.... The capitalist mentality of the medieval business classes rested on the dictum: 'A profit is a profit, however it is acquired.'"

Merchants in Italian city-states thought nothing of putting the bodies of diseased animals into the shops of their competitors in order to make them, their employees, and their customers ill.

It was by morally sanctifying the pursuit of profit that Protestantism made business ethics possible. While traditional Catholic theology viewed work at worst as a curse and at best as a distraction, Protestantism held that a businessman's work could be pleasing to God. Not only could one serve God by working, but the correct use of wealth was precisely to increase it for the glory of God.

Consequently, the pursuits of profit and of heaven became not only compatible but mutually reinforcing. A diligent worker, for instance, was less likely to be tempted by the devil. And, according to the 16th-century Protestant theologian John Calvin, being rewarded with financial success was now understood as a sign of God's favor. In short, the Reformation made it possible for a successful businessman to be an ethical individual as well.

Calvin's radical doctrine of predestination was never widely shared, even among Protestants. But a more secular version of Protestant business ethics did become important in Western popular culture. It is to this Protestant ethic that we owe our contemporary effort to understand the relationship between personal virtue and financial success, between corporate ethics and profitability.

The social scientist Irving Kristol has described 19th-century America as "a society in which it was agreed that there was a strong correlation between certain personal virtues—frugality, industry, sobriety, reliability, piety—and the way in which power, privilege, and property were distributed." Success was associated with the performance of

duty—a point made repeatedly in the Benjamin Franklin homilies and the rags-to-riches novels by Horatio Alger that were read by literally tens of thousands of school children then.

Contemporary discussions of business ethics focus less on questions of individual character than was true a century ago. Indeed, we appear to have almost completely lost sight of the fact that the word ethics is derived from the Greek term *ethos*, meaning "character." Because much economic activity now takes place through organizations, today we are less interested in the character of individual businessmen than in the decision-making processes of business firms. Consequently we tend to use the terms, corporate social responsibility and business ethics almost inter-

changeably. In addition, contemporary discussions of business ethics are overwhelmingly cast in secular terms. The profound Judeo-Christian roots of the Western tradition of business ethics are rarely examined. Even those theologians who write about business ethics seldom refer to the concepts of sin, evil, or divine judgment. Nevertheless, we remain no less preoccupied with the relationship between morality and profits than Max Weber, writing about "the Protestant work ethic," or Kristol's 19th-century school-children.

The notion that successful businessmen could be good human beings constituted an important dimension of the original moral case for capitalism. A second dimension involved a new understanding of the relationship between economic success and the public good.

In premarket economies, the acquisition of wealth was primarily a zero-sum game. One became wealthy primarily by fighting or taxing others, so as to take their resource.

What made capitalism unique was its claim to have developed a mechanism through which it was possible for an individual to acquire wealth that not only did not harm others, but actually benefited them. This mechanism was, of course, the market.

Wealth accumulated through the market does not lessen the total volume of available goods and services; the consumer is no worse off

for having exchanged his money for a commodity than is the merchant who now has fewer goods and more money. Thanks to the market, both are better off than they would otherwise have been, though not necessarily in the same proportion.

Prior to capitalism, virtually all profit tended to be regarded as profiteering; it appeared to be rooted in extortion rather than fair exchange. Accordingly, it was morally suspect. What capitalism did was to provide an ethical justification for moneymaking; capitalism's claim to be the world's first fair economic system was predicated on the understanding that the merchant, unlike the Roman warrior or the feudal lord, actually deserved his material wealth. In short, capitalism purported to be the first social system in

which the wealthy could claim that they simply received a just reward for performing a socially useful function. Centuries after the birth of capitalism, we continue to judge the acquisition of wealth by this standard.

Many contemporary economists tend to regard government as the primary if not the exclusive source of illegitimate wealth in capitalist societies. Even though this perspective overlooks the numerous regulations and public expenditures that clearly benefit society, it is not unreasonable.

Newspapers are replete with examples of bankers or developers who have used their political influence to acquire large sums of money—in each case clearly harming significant numbers of their fellow citizens.

More generally, people's appraisal of the ethics of restructuring has to do with their perception of its contribution to economic efficiency and productivity. If, on balance, the dramatic changes in the governance of the American economy that took place during the 1980s made business less productive and efficient, then the profits earned from this activity are clearly not deserved; after all, the moral case for profits rests on the claim that they reward only those activities that increase society's overall material abundance.

Adam Smith wrote in *The Wealth of Nations*: "It is not from the benevolence of the

## China Guangdong's Success in Industry

TRADITIONALLY noted for the best and most exotic Chinese cooking, Guangzhou today is known to the city's younger generation as the city of motorcycles.

Parking lots in the rest of the country are a jumble of spokes, gear chains and black fenders. But in Guangzhou the bikes must make room for row upon row of gleaming power machines, from motor scooters to motorcycles.

The speed, flair and freedom represented by this step upward in mass transportation is one sign of the booming economy, not only of Guangzhou but of surrounding Guangdong province.

Centred on the fertile Pearl River delta, Guangdong is economically out in front of the rest of China. Poor fishing villages of the late 1970s are today thriving centres of industry and commerce.

The business successes of China's rapidly industrialising Guangdong province embody both old and new elements. Dierdre Godfrey of IPS reports.

within an increasingly export-oriented economy.

Guangdong business successes embody both old and new elements. One of the leaders is the China Bicycles Company, and the spirit of the times is captured in its logo: a powerful young hero emerging from the waves, a bicycle held high above his head.

Located in Shenzhen in Guangdong and China's leading special economic zone, China Bicycles is a joint venture with Hong Kong Link and the US-based Schwinn co. In 1990, it was listed as China's number one joint venture.

"China has long been one of the main bike manufacturers in the world, but we've had no share in the world market, so we cooperated to produce the best bikes in China to export to other countries," explains CIBC deputy manager Chen Puggan.

Ninety-five percent of the company's bikes are exported to North America and Europe under such brand names as Diamond Back and Chimo. Sales and marketing are done in Hong Kong.

The 1.5 million bikes produced annually by CIBC come in over 100 designs and more than 2,000 colours, "to meet consumer needs," says Chen. This is a somewhat breathtaking statement in a country where the masses are almost uniformly seated on basic black.

This new type of approach is also seen in quite a few company practices standard in

industrialised countries, but not in China.

More attention is paid to quality than quantity. The company pays workers for further education that is related to work.

Standardisation of technical, management and work procedure means that most workers have a good overall orientation and wide-ranging competence within a few years. And the past two years' experiment with departments setting their own targets has worked.

As do many export-oriented and high-tech companies, CIBC relies on foreign personnel for training programmes and sends its own technical and marketing people abroad for study. Advanced machinery is imported as are some parts.

In contrast, a more old-style brand of worker spirit animates the Bai Yun Shan pharmaceutical factory in Guangdong. The four points of the Bai Yun Shan people's spirit are emblazoned on a red banner over the factory gate: love the factory, promote mutual interest, pay attention to progress and seek the truth.

Founded by intellectuals sent to the countryside during the Cultural Revolution, Bai Yun Shan almost shut down in the mid-1970s due to technical backwardness and poor management. A change in leadership produced a recovery that has made it one of the leading pharmaceutical plants in the country, producing both herbal and Western medicine.

The Asia Simulation and Control System Engineering Company, located in Zhuhai at the mouth of the Pearl River, exemplifies another ingredient of many Guangdong successes: an emphasis on personnel with advanced degrees.

ASC recruits the best engineers in the country and pays them many times what they would earn elsewhere. The only operation of its kind in South-east Asia, ASC develops simulation models of power plant control rooms to provide operator training before a plant goes into operation.

The Guangzhou Peugeot Company, a French-Chinese joint venture, faces another kind of high-tech challenge: manufacturing to standard a world-class automobile in a country with only a fledgling auto industry or indeed a car-driving population.

But Guangzhou Peugeot doubled its growth by turning out 14,000 vehicles in 1991. A profit of US\$37 million was forecast. At year's end, the company was listed as the number nine overall joint venture performer in China.

Even a frustrated car manufacturer can make it in 1990's China. —IPS

## High Prices Making People Homeless

Charles Rukuni writes from Bulawayo

THE council in Zimbabwe's second largest city auctioned 42 houses in its high-density suburbs — formerly black townships — because of bad debts. The move deprived 42 families of their homes and reflected a growing housing crisis in the country.

Bulawayo has a housing backlog of 29,000 and the figure in Harare, the capital, is 60,000. Property prices, virtually stagnant for three years, have risen almost fivefold.

The Bulawayo action, though perfectly legal, has serious repercussions. The council said in its last report that nearly half the people on its waiting list for subsidised housing did not qualify for any houses in the city because of their low incomes.

Forty-four per cent earned under Z \$170 a month. The lowest loan obtainable from building societies which fund the council's housing programme is Z \$2,200 — requiring earnings of Z \$184 a month.

Moreover, housing under this scheme is highly inadequate. It provides only two rooms while most low-income earners have big families.

The report also indicated that only 23 per cent, those earning from Z \$301 to Z \$750, could afford four-roomed houses. Yet the ever-increasing cost of living means only those in the so-called middle income group — earning Z \$750-1,500 — can really live in comfort in these houses.

Under council policy (also government policy), those in the middle income group cannot be allocated houses in the high-density suburbs. Before independence in 1980 and just after, these people were mostly accommodated in the city centre in bachelor, one-bedroom and two-bedroom flats.

The escalating cost of housing means the same people cannot afford to buy any prop-

erty either in the city centre or the low-density areas — formerly white suburbs.

Although rents for flats in this area are as low as Z \$75 for a two-bedroom flat, many landlords have now decided to sell them because of the government rent freeze. The landlords complained they were making a loss.

Two-bedroom apartments that sold for Z \$17,000 three years ago are now selling for Z \$90,000.

**Property prices in Zimbabwe, virtually stagnant for three years, have suddenly shot up. Many people living in former black townships, known as high-density areas, cannot afford their homes. The situation is so bad, reports Gemini News Service, that when 27 doctors were allocated to the city, 14 could not take up their posts because of shortage of accommodation.**

\$90,000 while one-bedroom apartments now average Z \$50,000.

The downpayment for an apartment or house under Z \$100,000 is 10 per cent, provided the person does not own any other property. Most people in the middle income group and even some in the so-called high income group cannot afford repayments.

The monthly repayment for a house costing Z \$33,000 is Z \$530 payable over 25 years. High taxation on individual incomes means those earning Z \$1,500 a month cannot afford the repayment. After deductions they have a take-home salary of about Z \$280. The av-

erage shopping basket is estimated at Z \$280 a month.

Getting rented accommodation is now almost impossible. One-bedroom apartments now average Z \$350 and two-bedroom ones go for Z \$750. A two-bedroom flat rented for under Z \$100 three years ago.

House in low-density suburbs that sold for only Z \$14,000 six years ago now sell for Z \$150,000. Rentals can be up to Z \$1,500 a month. Worse still, one needs a car to stay in these suburbs as there is virtually no public transport.

Cars in Zimbabwe are scarce. Some car dealers have not sold a new car since independence and despite the widely publicised Willowvale car scandal nothing has changed.

In fact, cars in Zimbabwe are like wine — they mature with age. A car bought for Z \$9,000 four or five years ago sells for double that amount today.

The housing shortage has baffled the government, which has now admitted that its goal to provide housing for all by the year 2000 will not be achieved.

Although the government signed a Z \$695 million housing loan scheme in January, Vice-President Simon Muzenda admitted it was peanuts because 1.9 million houses are needed by the year 2000.

For Bulawayo, the shortage of housing had a bitter side-effect. The city was allocated 27 doctors, but 14 could not take up their posts because of shortage of accommodation. — Gemini News

(Charles Rukuni was the Harare editor of *Moto* a Zimbabwean weekly and later Deputy news editor of the *Bulawayo Chronicle*. He is now freelance.)

SOME farmers fear they may be forced off their land by the crisis in the wool industry, traditionally one of the mainstays of the New Zealand economy.

This has been caused by a drop in the international demand for wool and the removal of price supports which have boosted the amount sheep farmers received.

The wool industry has been hit hard because two of its biggest customers, China and the Soviet Union, stopped buying. Between them they have been taking 22 to 36 per cent of New Zealand's wool exports over the past four years.

The prospects for the industry are the grimmest since World War II, says New Zealand Wool Board Chairman Pat Morrison.

The crisis comes at a time when the Australian wool industry is facing a similar crisis with debts of A\$2.8 billion (US\$2 billion) and a stockpile of nearly 5 million bales.

Average market prices in New Zealand, where most wool is sold by auction, have been around NZ\$4 (US\$2.65) a kilogram. But the Wool Board has been topping this up to NZ\$4.85 (US\$3.25) from levies it has imposed on farmers over the years.

There are predictions here that the price could drop to NZ\$3 (US\$2) or even as low as NZ\$2 (US\$1.30), leaving many of the country's 23,000 wool and meat farmers facing hefty debts to keep their farms going, or having to walk off them.

Prime Minister Jim Bolger has made it clear the government, itself strapped for cash, is unable to bail farmers out. "I think the taxpayer is running out of money to inject into rescue packages," he said.

Problems for the wool industry began in Australia with massive over-production coinciding with a downturn in international demand.

With more Australian farmers switching to wool, the country's wool clip reached a record 1,000 million kilograms in 1989-90.

## Sheep Farmers Profit from Shearing

by Derek Round

market after the 1989 Tiananmen Square crackdown and the Soviet Union, facing its own economic and political upheavals, also started withdrawing in 1989.

Some Western European buyers, reacting to high prices, started switching to cotton and synthetic fabrics. Buying by Japan, which had built up a stockpile, also dropped.

The market failed to improve last year and the Australian government's decision to cut farmers' guaranteed minimum prices by 20 per cent pushed market prices down.

In New Zealand, wool exports fell 25 per cent in 1990 from NZ\$1.58 billion to NZ\$1.12 billion.

Exporters say New Zealand wool is competitively priced, but it is still higher than British, French, Spanish and South American wools.

While the present prospects for wool sales are gloomy, the industry hopes the longer-term outlook may not be so bad. Wool Board economist Patrick Conway says the present season should mark the bottom of the wool demand cycle.

The price has fallen about

40 per cent in the last 12 months, at about NZ\$4 a kilo, is at or below the price of its main competitor, synthetic fibres.

Present lower price levels are expected to see textile and carpet manufacturers — the most likely customers for New Zealand wool — substitute wool in place of synthetics in their manufacturing processes.

In the meantime, sheep and beef profits this season are expected to be down to their lowest levels in 30 years.

The average farm profit for the 1990-91 season is expected to be only 30 per cent

of income for farms in the mid-1970s, according to latest forecasts. Before-tax profit is predicted to slump to NZ\$21,000 for the average farm.

The impact on the wider economy means meat and wool farmers will have NZ\$320 million less to spend than last year and businesses serving farmers will feel the impact.

"About half our farmers are making a cash loss and more than half have to have family members earning money outside the farm," says Dick Davison, a senior official of the farmers' organisation, Federal Farmers.

With New Zealand dependent on farm produce for 60 per cent of its export earnings, the failure to reach agreement on trade liberalisation in the Uruguay Round GATT negotiations has come as another blow to its farmers' who resent what they see as unfair competition from heavily subsidised agricultural products in Europe and other countries.

They are depressed "and rightly so" about the breakdown in the GATT talks, Federated Farmers president Owen Jennings says.

World free trade in dairy products would earn New Zealand between NZ\$1 billion and NZ\$1.5 billion more a year, the New Zealand Dairy Board says.

New Zealand dairy farmers blame the depressed world butter price partly on a large sale of cheap American butter to the Soviet Union in 1989.

New Zealand has contracts to sell the Russians 100,000 tons of butter this year, but the current world price is down from US\$2,000 a ton in 1989 to about US\$1,350.

On the brighter side, farmers hope the opening up of Japanese and Korean markets this year will mean increased beef sales there. — Depthnews Asia

