

Report on Business Ethics in North America

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ABSTRACT. Although many challenges remain, business ethics is flourishing in North America. Prominent organizations give annual business ethics awards, investments in socially screened mutual funds are increasing, ethics officers and corporate ombudspersons are more common and more influential, and new ideas are being tested in practice. On the academic side, two major journals specializing in business ethics are well-established and other major journals often include articles on business ethics and new organizations emphasizing ethics have been initiated. Within business schools, the number of endowed chairs is growing and the ethics curriculum is expanding. Canada is a major player in the business ethics discipline while business ethics in Mexico is just beginning to emerge as a focus of interest in both the business and academic communities.

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1. Semantics of business ethics

Coined in a *Harvard Business Review* article by Lynn Paine (1994), the idea of “managing for organizational integrity” has become an important concept appealing to corporate managers. Managing for integrity goes well beyond managing merely for compliance and generally involves a management-driven self-governance program in which company values and aspirations play a critical role. Education, leadership, and accountability are the dominant instruments for implementation. This is contrasted with compliance strategies which are typically lawyer driven and based upon imposing conformity with externally established standards.

A key and controversial term at the organizational level is “stakeholder”. The term stakeholder is used in contrast to stockholders and is used to identify those who have “stakes” or claims involved in decisions made by the firm. Much has been written about stakeholder obligations; “stakeholder theory” is one of the most common themes in the business ethics/business and society literature. The writings about obligations to stakeholders is one of the more influential, more original contributions of the business ethics field. The term has recently taken on political implications as the Labour Party in Great Britain has adopted it as a theme. To some economists and conservative writers, “stakeholder” is seen as a code word used by managers to hide or justify self-serving breaches of fiduciary duty to the owners of the organization.

2. Major challenges of business ethics

Over the past two decades there has been an ever changing list of current issues drawing the attention of academics, the media and practitioners. For example, ten years ago, insider trading was a dominant issue. A short listing for today would have to include the following.

2.1. *Conflict between personal values and corporate values*

Many employees confront situations in which they are required to choose between what they think is right and what the company wants them to do. Concerns with job security often result in the employee giving in to the company's preference (Laura Pincus' letter of April 8, 1996).

2.2. *Downsizing/right sizing*

Many companies have made or announced substantial cutbacks in employees during the last several years. They have included highly visible firms (AT&T and IBM), and firms that have traditionally tried to provide an environment of guaranteed employment (IBM, Xerox, Kodak). Many of the firms that have cut back have been profitable and the announcements have, in several cases, resulted in substantial increases in shareholder wealth. Issues involved with downsizing include whether the cutbacks are justifiable, whether adequate procedural justice has been provided employees, and whether adequate severance terms are provided.

2.3. *The instrumental value of behaving ethically*

2.4. *Diversity, specifically ethnic, gender and racial discrimination (Bill Shaw 4/14/96)*

2.5. *Human rights abuses and corruption from the viewpoint of North American firms doing business in countries where such activities are problems*

2.6. *The interrelationships and challenges of business and global environmental sustainability*

2.7. *Globalization of business and business activities*

3. Professional and community business ethics activities

3.1. *Business ethics awards/ratings*

A major development is the increasing number of business ethics awards given on an annual basis by a variety of sponsors. One of the first and most successful in this area is the awards given by The Business Enterprise Trust. The BET awards have been announced on national television with prominent figures participating (The President's wife, the Vice-President). Cases have been written on each of the winners and videos produced, some narrated by Bill Moyers. More recently, awards have been established by the Better Business Bureau (The Torch Awards, with the prominent newscaster David Brinkley as Master of Ceremonies), *Business Ethics Magazine*, and the American Society of Certified Life Underwriters and Chartered Financial Consultants (The American Business Ethics Awards). In May, President Clinton cited four companies as outstanding corporate citizens at a White House Conference.

Some consulting firms publish ratings of corporations based on certain screening criteria. The most recent example of a ratings list is the Business Ethics 100, a listing of the top 100 firms according to a set of business ethics criteria by *Business Ethics Magazine*.

3.2. *Ethical investing*

The last few years have seen a significant increase in mutual funds that engage in some form of social screening. There are now over 40 such funds with total investments approximating \$650 billion in mid-1996. Although representing a very small proportion of total investment, their

position appears to be growing and several of the funds have above average performance records (although on average they under-perform peer funds who do not engage in screening).

3.3. *Corporate sentencing guidelines*

The United States Sentencing Commission has adopted guidelines for judges to follow in sentencing corporations who have been determined to have committed criminal violations of United States law. The Guidelines increase the amount of fines a corporation is required to pay if it has attempted to cover up a violation or has impeded an investigation. The amount of the fine is lowered if the corporation has disclosed the violation on its own, has cooperated in the investigation, and, most significantly, if the organization has in place an effective ethics program.

The Guidelines have served as a stimulus to corporations to develop ethics programs, and several law firms and consulting firms have developed small practices in this area. The Sentencing Commission has distributed grants to encourage academic research on the topic and has held a major conference to encourage corporations to develop ethics programs.

3.4. *Ethics Officers Association*

The Ethics Officers Association, a professional organization for senior corporate ethics officers, has grown significantly during the past three years and is now a major source of information and support for the development of corporate ethics programs. Representatives of the EOA reported in detail on their activities at the 1996 First World Congress of Business, Economics and Ethics in Tokyo.

3.5. *Corporate ombudspersons*

A number of corporations now have corporate ombudspersons. Their role differs in significant ways from that of corporate ethics officers. Essentially problem solvers, ombudspersons are

neutral, impartial parties who attempt to provide for an effective resolution of disputes within organizations. They support the development of fair processes and administration, but do not serve as advocates for any individuals and are not agents of the organization. There is an Ombudsman Association which has just drafted "Standards of Practice" which emphasize confidentiality, objectivity, and impartiality.

3.6. *Social issue shareholder resolutions*

In the United States, shareholders may propose resolutions to be voted on by proxy by all shareholders so long as the resolution does not relate to "the ordinary business" of the corporation or accounts for less than 5 percent of assets and sales and "is not significantly related to the firm's business". If a resolution gets 3 percent of the vote it can be brought back a second year, at which time it must get 6 percent of the vote and then for a third year and thereafter it must garner 10 percent of the vote. Shareholder resolutions pending in 1996 include one at Chevron asking that the firm be required to issue a report on the costs and risks of continued operations in Nigeria; one at Gillette asking for a report on plans to eliminate animal testing; and resolutions at Phillip Morris asking that they stop challenging environmental tobacco smoke data, and that they link executive compensation to social performance.

Although rarely, if ever, outright successful, shareholder resolutions that draw votes of between 10 and 20 percent tend to produce some corrective actions on the part of the firm. In recent years, the most popular resolutions were those supporting increased diversity of representation on boards of directors, with some getting over 20 percent of the vote. On average, social issue shareholder resolutions received 8.3 percent of the vote in 1995.

3.7. *Conferences*

Several business oriented conferences on business ethics are now well established annual events.

The Conference Board runs a conference each year in New York City during the Spring. There is also a west coast conference at Long Beach State University which draws many ethics consultants.

3.8. *Special tax and regulatory breaks for socially responsible corporations*

Several proposals have been made in the United States Congress that would offer tax breaks for corporations which provide certain benefits for employees. The most specific proposal was from Senator Bingaman (Democrat, New Mexico) who proposed legislation that would give tax breaks (11 percent compared to a standard rate of 18 percent), safe harbor exemptions from certain regulatory requirements, and procurement preference to so called "A-Corps". The A-Corp nomenclature stems from the firm being a "business allied with America's working families."

In order to qualify for the preferences, an A corp would have to give at least 3 percent of payroll to a pension plan; 2 percent of payroll to employee training or education; pay half the cost of a health care plan for all U.S. employees, have 50 percent of employees participate in profit-sharing; have the total compensation of its highest paid executive be no more than 50 times the lowest paid worker; have above average Occupational Safety and Health Association and environmental compliance records; and ensure that 50 percent of new research and development expenditures are spent within the United States.

The ideas do not have a great deal of political support for the time being, but they may have an impact on the ethics literature and, in time, may have a greater chance of taking effect.

3.9. *Corporate codes and the internet*

More and more companies are putting their codes of conduct on the World Wide Web. The Web is a new tool by which firms attempt to create reputations as responsible, caring firms. (Laura Pincus' letter of April 8, 1996).

4. Academic activities

4.1. *Major grants*

Organizations such as the Kemper Foundation regularly award relatively small grants for research pertaining to business ethics. The Sloan Foundation has awarded a major grant for the study of stakeholder theory. This grant is an extension of, among other things, the stakeholder project at the University of Toronto which historically has received support from Canadian government sources.

4.2. *Journals*

The Journal of Business Ethics and the *Business Ethics Quarterly* are the primary journals specializing in business ethics. In addition, *The Business and Professional Ethics Journal* and *Business and Society* publish substantial numbers of articles on business ethics. Journals that publish ethics articles from time to time on a consistent basis include the *Academy of Management Review*, the *Harvard Business Review*, and the *California Management Review*. In a survey of members of the Society for Business Ethics that will be published in the *Business Ethics Quarterly* (Wicks and Derry, 1996), the top two journals overall are *The Business Ethics Quarterly* and the *Academy of Management Review*. The respondents to the Wicks & Derry survey see the *Business Ethics Quarterly* as more theoretical in contrast to the more applied and empirical approach of the *Journal of Business Ethics*, as do the editors of the two journals (Al Gini's letter of April 2, 1996).

4.3. *Organizations*

A large number of academic organizations have some connection with business ethics. The Society for Business Ethics has experienced steady growth and now supports a journal, a major conference each year, and sessions at a number of other conferences. The Social Issues in Management Division of the Academy of Management and the Ethics Section of the

Academy of Legal Studies in Business have membership in the hundreds who are concerned with managerial or legal dimensions of business ethics. Internationally, ISBEE and the International Association of Business and Society have substantial representation from North America interested in issues within the domain of business ethics.

The Association for Professional and Practical Ethics and the Society for the Advancement of Socio-Economics typically have a number of papers and panels on business ethics at their annual meetings.

4.4. *Endowed academic chairs*

The number of endowed academic chairs in business ethics continues to grow. According to James R. Glenn's database, in the United States and Canada there now are 42 endowed chairs and professorships of business ethics or ethics in the professions. During the last few years Wharton, Wisconsin, New York University, Northwestern, and Darden Graduate School have been among major schools that have filled endowed chairs. The University of North Carolina at Charlotte, the University of British Columbia, and Georgetown University are institutions that are currently or soon will be searching to fill major chairs.

4.5. *Literature/research trends*

The special issues of the major ethics journals provide one source of emphasis in the current business ethics literature. Topics include community involvement and service as part of the classroom experience (JBE, 15:1, 1996); ethics and the environment (BEQ 5:4, 1995); social contracts and business ethics (BEQ 5:2, 1995); ethics and leadership (BEQ 5:1, 1995); and Stakeholder Theory (BEQ 4:4, 1994). Hosmer in an article forthcoming in the *Business Ethics Quarterly* (1996) surveys the first five volumes of that journal and concludes that there is "a sense of dissatisfaction with existing theory". He further notes that there is insufficient citation to

normative theories and a lack of attempted empirical validation in the existing literature.

Major book series are The Ruffin Series in Business Ethics (Oxford University Press), Issues in Business Ethics (Kluwer Academic Publishers in cooperation with the European Business Ethics Network), and Soundings: A Series of Books on Ethics, Economics and Business (University of Notre Dame).

The literature in business ethics is still in its infancy and it has yet to have a significant impact outside of its own borders. The articles and books produced in the field are mainly just cited by others in the field, with little extension beyond this inbreeding. There are, however, clear streams of business ethics research in the marketing and management literatures.

David Vogel, editor of the *California Management Review*, suggests (in a letter of March 20, 1996) that a major contribution would come from "detailed case-studies, including field research, of firms that would engage us to actually understand how managers address the ethical issues they face. . . . Such 'ethical audits' would not only help illuminate current ethical issues in business but would engage us to better understand the organizational and economic factors that shape business decision-making."

4.6. *Curricular trends*

The accrediting body for business schools in North America, the American Assembly of Collegiate Schools of Business, provides in its accreditation standards that "Both undergraduate and MBA curricula should provide an understanding of perspectives that form the context for business" which should include coverage of "ethical and global issues" and the "influences of political, social, legal and regulatory, environmental, and technological issues."

The vast majority of business schools offer coverage in business ethics. A significant number have required or semi-required offerings. Ethics is sometimes integrated with other subjects, particularly leadership, organizational values or law, and public policy. Darden has developed a doctoral program, and Wharton now has a

doctoral course and students who effectively take a minor field in business ethics. One major concern is the source of the next generation of faculty who will teach the ethics courses that have sprung up during the past decade.

4.7. Centers and programs

There are a large number of centers which stimulate, support, and disseminate research related to business ethics and corporate social responsibility. Among the oldest are the Olsson Center for Applied Ethics at the Darden Graduate School of Business, University of Virginia, which was established in 1969, and the Center for Business Ethics at Bentley College in Waltham, Massachusetts, which was founded in 1976. Many universities have established new centers and programs in business ethics in the last year, e.g. the Carol and Lawrence Zicklin Center for Business Ethics Research at the Wharton School of the University of Pennsylvania. In response, the APPE has established a new section for directors of centers and institutes. The most complete and current listing of centers may be obtained by contacting the APPE. (410 North Park Avenue, Bloomington, IN 47405).

5. Business ethics in Mexico (contributed by B. Husted)

Business ethics in Mexico is beginning to emerge as a focus of interest in both the business and academic communities. For example, the Social Union of Mexican Business Executives (USEM) is a business group which is concerned with ethical and social issues in Mexican management. Catholic social thought provides the basis for its analysis of current issues. Its magazine, *Revista USEM*, publishes original contributions in Spanish dealing with business ethics as well as translations of articles published in other magazines and journals. Some business firms and peak organizations include an ethics or "business philosophy" officer who addresses questions of ethics and vision. FEMSA (a large holding company with investments in the beverage and retail industries) and CAINTRA (the Chamber

of Manufacturing Industries of Nuevo Leon) are prominent examples. Finally, business ethics is being taught in some universities. The Monterrey Institute of Technology (ITESM) has established a Center of Professional Values to develop materials for courses in such areas as business, engineering, and medicine. Most of these initiatives are isolated and do not benefit from systematic coordination either with other national efforts or with international institutions. It is expected that further democratization in the political sphere will promote interest in business ethics as citizens demand greater accountability from both public and private institutions.

6. Business ethics in Canada

The past two meetings of the Society for Business Ethics have been held in Canada. The 1995 meeting was in Vancouver and featured a panel on Canadian approaches to business ethics which featured the following papers: Vincent Di Norcia (University of Sudbury), "Business Ethics in Canada: Distinctiveness and Directions"; Leonard J. Brooks (University of Toronto), "Business Ethics in Canada"; Colin Boyd (University of Saskatchewan), "Business Ethics in Canada: A Personal View"; Jean Pasquero (University of Quebec at Montreal), "Business Ethics And National Identity in Quebec"; Alex Michalos (University of Northern British Columbia), "Non-academic Critics of Business Ethics in Canada"; and Michael McDonald (University of British Columbia), "Business Ethics in Canada: Integration and Interdisciplinarity". The 1996 meeting was held in Quebec City and drew a large number of Canadian participants.

The Journal of Business Ethics has thrived under its Canadian editors, Alex Michalos and Deborah Poff, and is now publishing monthly with the last volume running in excess of 1300 pages. The *JOBE* publishes articles from a wide variety of methodological and disciplinary perspectives concerning ethical issues related to business. A new journal, *Teaching Business Ethics*, is being launched under the same editorial leadership, and will start publishing in 1997.

The University of Toronto has held three workshops on stakeholder theory. Two of these were sponsored in part by the Canadian government and the last was sponsored by the Sloan Foundation. These workshops have led to reports which have been influential in the development of stakeholder theory.

Researchers', *Business Ethics Quarterly* (forthcoming).

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