The making of an Ethical Executive

por William J. Byron, S.J.

*Conferencia pronunciada
el 16 de marzo de 2010*

Forum Deusto

The Making of an Ethical Executive

William J. Byron, S.J.
University Professor of Business and Society, St. Joseph's University,
Philadelphia, Pennsylvania, USA

I number myself among those who were disappointed with the negative treatment given by *The* [London] *Economist,* in a special supplement in a section labeled "Capitalism and Ethics" (January 20, 2005), to the "good company" theme that is enjoying serious consideration in business circles these days. I happened to be teaching a course on Corporate Social Responsibility when that unexpected but not unwelcome challenge to what I was doing appeared in the pages of *The Economist*, a journal that I respect and admire. It was unexpected because I judged both the tone and the content of the critique to fall short of *The Economist's* normally high standards. It was not, however, unwelcome because I was able to introduce the article for classroom discussion with my Loyola MBA students that semester. My students were MBA "fellows"—mid-level, full-time managers with business experience, who were, in terms of executive responsibility, a cut below the Executive MBA level, but more experienced in the business world than the typical full-time MBA student.

Before summarizing *The Economist* critique of Corporate Social Responsibility, let me state my fundamental thesis: *Principles of corporate social responsibility and business ethics can, if clearly articulated in the classroom by word, image, and example, be understood and assimilated (internalized) by students and remain within them to be drawn upon as prompters of ethical behavior in later years.*

I. *The Economist* Critique

In a January 20, 2005 editorial on "The Good Company," *The Economist* declared it "a pity" that the movement for corporate social responsibility (CSR) appeared to be winning the battle of ideas.

135

The editors found no evidence that businesses that were committed to CSR were notable, as measured by a percentage of pre-tax profits, for charitable contributions either in cash or in kind. Setting gift-giving aside, *The Economist* next noted that the CSR activities of large corporations were more "tokenism" and nods to political correctness than evidence of a genuine concern to "give back to the community." CSR is "mostly for show," says *The Economist,* acknowledging, however, that there "are many interesting exceptions—companies that have modeled themselves in ways different from the norm; quite often, particular practices that work well enough in business terms to be genuinely embraced; charitable endeavors that happen to be doing real good, and on a meaningful scale." But for most big companies, says the magazine, "CSR is little more than a cosmetic treatment." And the editors reinforce this point by saying: "The human face that CSR applies to capitalism goes on each morning, gets increasingly smeared by day and washes off at night." At best, CSR is "a gloss on capitalism."

The critique continues: "Better that CSR be undertaken as a cosmetic exercise than as serious surgery to fix what doesn't need fixing." Although some CSR initiatives may do good, "it is important to resist the success of the CSR idea—that is, the almost universal acceptance of its premises and main lines of argument." The premises, of course, point to flaws in the capitalist system; and the main lines of argument urge, often from a standpoint of justice, that corrective or compensatory action must be taken.

The Economist acknowledges that private enterprise must operate within laws and requires governmental regulation and the consent of electorates. There is a role too for business ethics and "managers need to be clear about that, and to comprehend what it implies for their actions." Moreover, the magazine acknowledges that "private enterprise serves the public good *only if* (emphasis mine) certain stringent conditions are met. As a result, getting the most out of capitalism requires public intervention of various kinds, and a lot of it: taxes, public spending, regulation in many different areas of business activity. It also requires corporate executives to be accountable—but to the right people in the right way."

Presumably, the "right people" would be the shareholders, and the "right way" would be personal integrity and private initiative.

There are battle lines here, to be sure, but the gap between CSR advocates and their critics (at least criticism from *The Economist*) may not be as wide as some would think. On either side of the line, ideology can distort reality. Fear of being labeled "a liberal" can prompt

business leaders to dismiss the notion of corporate social responsibility, even when they might otherwise be inclined to act in that way; fear of appearing friendly to capitalism can blind the reformer to the potential for good within the capitalist system. I would count myself as one who believes a humanistic capitalism is not only possible but desirable. And I would reject both fatalism and revolution, while choosing reform, as the instrument of social change that is waiting to be applied to the circumstances that surround us today in our search for The Good Company. The existing system needs reform.

II. **The Essentials of Corporate Social Responsibility**

It is a pleasure to acknowledge here my debt to Archie B. Carroll for "The Pyramid of Corporate Social Responsibility: Toward the Moral Management of Organizational Stakeholders," an article that appeared in *Business Horizons* (July-August, 1991) and was later incorporated into his textbook on the social responsibilities of business. Carroll's "pyramid" can be thought of as a four-level box or four-drawer file-cabinet that both defines and describes a socially responsible business organization. Here is how I present it to students.

These four layers represent the essentials of CSR. At bottom, first and fundamental is the economic level—the organization must be economically viable if it is to be socially responsible. Hence profit is not a dirty word. It is an essential element of social responsibility. In classroom lectures I typically use an analogy to make this point with students. Just as a human person cannot survive without food, a business firm cannot survive without profit. But, I always ask, who would tell you that it is a good idea to maximize your intake of food? So when deciding what's best for a firm, you should work to optimize the firm's long-term viability, but not make the mistake of thinking profit-maximization is the way to make that happen.

The second level of corporate social responsibility is the legal. In the opening days of any undergraduate business ethics course, a typical student will define business ethics as "making sure you operate within the law." But not all ethical requirements are mandated by law (nor are all unethical behaviors forbidden by law). So the legal is an important element but the social responsibility story does not end there.

The third level—above the economic and the legal—is the ethical. This means doing the right thing. It marks the introduction of "ought" and "ought not" into managerial decisions and deliberations.

137

The sources of ethical sensitivity and standards can be found in reason (through philosophical inquiry), religion and revelation (through theological reflection), experience (by a review of personal, vicarious, historical, literary experience), and common sense (too often overlooked as an ethical standard). It is at this third level—the ethical—that considerations of character—what it is, how it is formed, and what strengthens or weakens it—enter the picture.

Fourth and finally, at the top of the pyramid, is what Archie Carroll calls the voluntary/discretionary/philanthropic dimension of corporate social responsibility. At this level, the corporation does good things that are not necessarily profit-producing. Nor are they required by law. Nor would one be considered unethical for omitting them. But they are good for the community and a good corporate citizen should be doing them—e.g., helping the homeless, supporting the symphony orchestra, supporting both public and private education, doing volunteer community service on or off company time. One of my Jewish friends, himself an admirably socially-conscious citizen, insists that there is nothing "discretionary" about his philanthropic and volunteer activity. He subsumes it under the "ethical" and regards it as part of his Jewish cultural/religious responsibility. He considers himself thus obliged.

Within, and indeed through, this four-level framework, I ask my students to look at the real world of business and take the measure of corporate social responsibility.

III. Making Room for Classroom Discussion of Business Ethics

In the *New York Times* on February 8, 2005, Robert J. Shiller, an economics professor at Yale, published an essay under the title, "How Wall Street Learns to Look the Other Way." His point of departure for the article was publication of a report of the board of the New York Stock Exchange on the notorious compensation package given to its former chairman, Dick Grasso. The report did not provide, noted Professor Shiller, "an answer to an obvious question: Why did nobody on the exchange's board look at that astronomical sum and feel some personal responsibility to find out what was happening?"

Shiller's explanation draws the reader into the typical business school classroom and curriculum. He states flatly that "the view of the world that one gets in a modern business curriculum can lead to an ethical disconnect. The courses often encourage a view of human nature that does not inspire high-mindedness." He focuses on financial

138

theory, "the cornerstone of modern business education." Financial theory, highly mathematicized, as we all know, "portrays people as nothing more than 'maximizers' of their own 'expected utility.' This means that people are expected to be totally selfish, constantly calculating their own advantage, with no thought of others." This approach leaves little room for classroom talk about ethics!

Turning to the August 7, 2003 board meeting where Mr. Grasso received approval to pocket $139.5 million, Shiller says questions whether the compensation was too high were raised, but got no traction. "Maybe it is not too surprising that they were ignored: executive compensation has been soaring in recent years, and to people today, it may well seem that these increases must be entirely the result of respectable 'market forces.'" The problem, says Shiller, is that modern business education encourages "excessive respect" for whatever a free market produces. Ultimately, the problem at the level of business education is, says Shiller, a tendency toward overspecialization. Professors have their research interests and expertise; subject matter is defined accordingly. "The specialty of financial theory has largely come to be defined by skills manipulating a narrow class of mathematical models of purely selfish behavior. Business ethics is just another academic specialty, and can seem as remote as microbiology to those studying financial theory."

The Grasso compensation problem as well as the scandals at Enron, Tyco, and other well-known venues, would have been "a little less likely," in Shiller's view, "if more of us professors integrated business education into a broader historical and psychological context." This is an acknowledgment that all of us are shaped by cultural forces and there should be room in the classroom and in the curriculum for exposure to an understanding of the values that shape the right cultures. If, for example, the dominant value is greed, a corresponding culture will develop. If the dominant value is cooperation, or justice, or concern for the common good, remarkably different cultures will emerge.

A narrow outlook will never catch the big picture. Education for business should locate itself within the context of the humanities if it is ever going to produce men and women of both broad vision and ethical sensitivity.

IV. **Substance and Style in the Communication of Principles**

To repeat a point I made at the beginning of this paper: *Principles of corporate social responsibility and business ethics can, if clearly artic-*

139

ulated in the classroom by word, image, and example, be understood and assimilated (internalized) by students and remain within them to be drawn upon as prompters of ethical behavior in later years.

In working with students, I take great pains to point out that principles are initiating impulses; they are internalized convictions that produce action. Principles direct your actions and your choices. Your principles help to define who you are. Principles are beginnings; they lead to something. That's why I like to tell students that on the road to success in business, they should "let their principles do the driving."

The substance of the principles that I want to communicate in courses on corporate social responsibility and business ethics can be found in revelation—e.g., the Ten Commandments, the Beatitudes (and the rest of the Sermon on the Mount), also in what I call the "Pauline Criteria" for identifying the presence of the Holy Spirit in one's life and surroundings. Paul calls them, in Galatians 5:22-23, the "fruit" of the Spirit and identifies them as "love, joy, peace, patience, kindness, generosity, faithfulness, gentleness, and self-control." Words taken from these three (and many other sources) can be articulated as principles, then explained, and eventually internalized.

Reason too can produce appropriate sets of principles. So can history and literature. The great tradition of Catholic Social Teaching can be summarized in principle form. (I attempted that in an article that has been widely adopted for courses and translated into many languages: "Ten Building Blocks of Catholic Social Teaching," America, October 31, 1998, pp. 9-12.) Each of these "blocks" is part of the substance that I want to communicate.

For research that produced my book The Power of Principles: Ethics in the New Corporate Culture (Orbis Books, 2006), I incorporated ten "old ethical principles" for discussion in interviews with business executives to see how they would articulate them and explain their meaning to young persons just starting out in business and interested in avoiding the ethical quicksand that pulled down Arthur Andersen, Enron, WorldCom and others in recent years. I will list those principles here in summary form:

First, the principle of integrity, which I think of in terms of wholeness, solidity of character, honesty, trustworthiness, and responsibility.

Second, the principle of veracity, which involves telling the truth in all circumstances; it also includes accountability and transparency.

Third, the principle of fairness, by which I mean justice, treating equals equally, giving to everyone his or her due.

Fourth, the principle of human dignity, the bedrock principle of all ethics—personal and organizational—acknowledging a person's inherent worth. It prompts respectful recognition of another's value simply for being human.

Fifth, the principle of participation, which respects another's right not to be ignored on the job or shut out from decision-making within the organization.

Sixth, the principle of commitment. What I have in mind here is that a committed person can be counted on for dependability, reliability, fidelity, loyalty.

Seventh, the principle of social responsibility, which points to an obligation to look to the interests of the broader community and to treat the community as a stakeholder in what the corporation or organization does.

Eighth, the principle of the common good, which operates as an antidote to individualism; it aligns one's personal interests with the community's well-being.

Ninth, the principle of subsidiarity, best understood, perhaps, in terms of delegation and decentralization, keeping decision-making close to the ground. It means that no decision should be taken at a higher level that can be made as effectively and efficiently at a lower level in the organization. This could be viewed as a "principle of respect for proper autonomy."

Tenth, the ethical principle of love, which I see as a principle, an internalized conviction, that prompts a willingness to sacrifice one's time, convenience, and a share of one's ideas and material goods for the good of others.

The style that works best in communicating these principles is, I've found, conversational. No emphasis on memorization. No dictionaries or philosophy notes to be consulted. Just start talking about the relevant principles. Declare each student to be the world's leading expert on his or her own opinion and then simply ask: How do you understand integrity? What for you is the meaning of veracity? How do you understand the common good, social responsibility, and on down the list of the "old ethical principles"? And then broaden the inquiry to ask students to recall excerpts from films, plays, speeches, novels

141

and other literary or historical sources that capture the essence of one of these principles. What persons do you know who embody them? What might you be willing to disclose about their presence or absence in yourself?

I do not at all discount the importance of introducing students to textbook summaries of principles of business ethics. I particularly like to have students read, parse, and discuss the implications of documents like the famous Caux Round Table set of "Principles for Business." The "CRT Principles" date back to a gathering in 1986 in Caux-sur-Montreus Switzerland of global corporate leaders interested in reducing trade tensions. Journals like the *Harvard Business Review* offer abundant material to feed the minds and fuel the conversations of business students who are on their way to positions of corporate responsibility. My point is that without those classroom conversations now, decisions to be taken later in the real-time, real-world of corporate decision-making may not be the kind of principled decisions that can contribute to an improved ethical environment in business.

Hence, "the making of an ethical executive" begins with creative ethical conversations in the business school classroom. That will not happen without creative classroom instruction by a principled professor who (1) is unwilling to take recorded messages in response to probing questions, (2) respects not only the dignity of the student-person, but also the value of well-reasoned student opinion, and (3) knows that it is a professional challenge now for him or her (just as it is for the parent of an adolescent) to know where trust ends and neglect begins. No one ever knows for sure. But of this anyone can be certain: The developing student will soon face the challenge in business of honoring all trusts and neglecting no responsibility. The right classroom conversations now will go a long way in preparing students to meet that challenge.