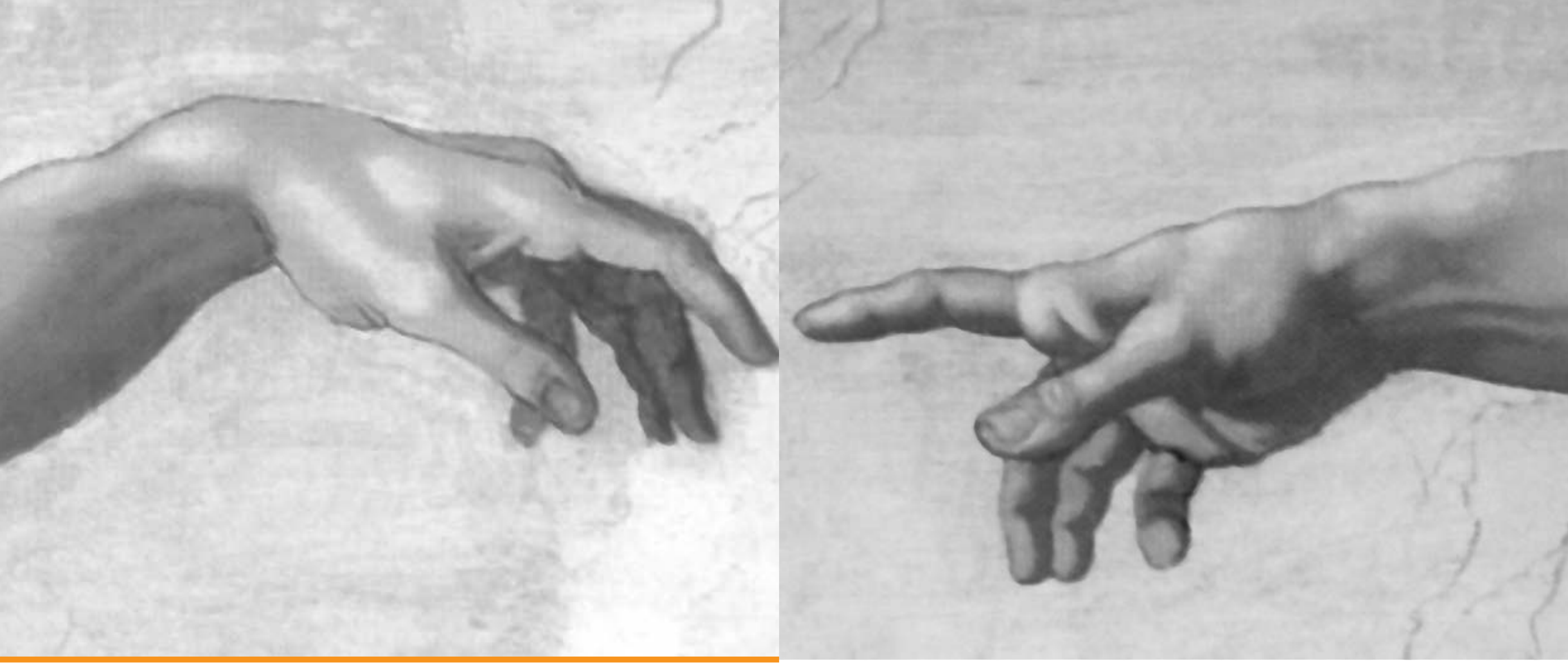

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Andreas Suchanek

Business Ethics and the Golden Rule

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Autorenanschrift

Prof. Dr. Andreas Suchanek
Wittenberg-Zentrum für Globale Ethik e.V.
Collegienstraße 62
D-06886 Lutherstadt Wittenberg

Korrespondenzanschrift

Wittenberg-Zentrum für Globale Ethik e.V.
Collegienstraße 62
D-06886 Lutherstadt Wittenberg
Tel.: +49 (0) 3491-466-257
Fax: +49 (0) 3491-466-258
Email: info@wcge.org
Internet www.wcge.org

Andreas Suchanek

Business Ethics and the Golden Rule[1]

1. Introduction

In the area of business management, the (ethical) discernment of decision makers plays a vital, albeit sometimes underestimated role for the long term success of value creation. In principle, there are mandatory responsibilities for corporate leaders to practice “good”, that is, successful and responsible management. Contrary to what is often said, however, corporate success and corporate responsibility do not generally coincide: Ethics does *not* always pay! Actually, it is one of the central challenges of “good management” to constantly align success and responsibility in business.

When trying to meet this challenge from an ethical perspective, the question of “conditio humana” is at the very core of it. Above all, the following point must be noted: Each individual is a moral subject, possessing dignity and endowed with liberty. At the same time, each individual is an empirical being and as such subject to certain empirical (i.e. biological, psychological, social etc.) conditions. In fact, freedom exists, but only within the limits and boundaries that a particular situation itself entails.

Corporate leaders always face the challenge of being fair to both sides of human nature when it comes to motivating employees and meeting the expectations of stakeholders. In particular three different aspects of this challenge can be designated. As a leader one must: (1) take a position on the criticism of the social market economy, simply because this criticism can oftentimes pose a challenge to entrepreneurial actions. It applies further (2) to prove the responsibility of the enterprise, by making it clear that public trust in the integrity of the entrepreneurial act is justified; and this again requires (3) competence in organization and argumentation in relation to corporate-internal conditions, under which employees are willing to contribute to long-lasting and responsible improvement of the corporation’s values.

As will be demonstrated, many of the questions addressed thereby can be attributed to the fundamental theme of ethics: the question of the relationship of morality and self-interest.

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[1] I would like to thank Alicia Bockel for her translation of an earlier German version of this text.

2. The Relationship between Morality, Self-Interest, and the Golden Rule

The existence of the general distrust of self-interest that is currently present in public discussion, as well as the negative view of the pursuit of profit in the context of enterprises, can be attributed to Kant's ethics and the effects of those ethics on the German speaking world. According to this concept of ethics, acts of morality must come from obligation and not from inclination. Informally formulated, this means that people expect from moral behavior not to result in benefits for oneself but to cause some discomfort.

Thus the relationship between morality and self-interest is typically seen as being in conflict. Actually, there is a reoccurring clash between what morality preaches and what is in one's own self-interest. This has been a constant theme in (western) ethics and can be seen time and time again in our everyday lives. Apparently ethics implies that morality should always prevail over self-interest.

If generalized however, this view causes problems. After all, morals cannot force individuals to act constantly against their personal interests. As previously mentioned, individuals are not only moral beings but they are also subject to empirical, biological, psychological, social, among other types of conditions, which we cannot negate or transcend at will; we can only deal with them in a more or less reasonable way. In a certain sense, the concept of "self-interest" is nothing other than a synopsis of these human empirical conditions.

If morality is to be applied individuals, then in principle it must be compatible with self-interest. That does not entail however, by any means, that all types of self-interest can be justified. Since the days of Aristotle, it has been morality's task to direct self-interest in such a way as to result in a successful (social) life (εὐδαιμονία).

To this effect, certain sacrifices are necessary to be made on an ongoing basis. This shows that it can be helpful to reformulate this idea into an economic view; referring to investments, instead of sacrifices. These can be defined as straightforward (consumer) abnegations—but the real focus should be on the resulting gains—which should also be applied to morality! Therefore it is possible to address (enlightened) self-interest in this way—without rejecting the claim of morality.

To be more precise, the thought of morality comes into effect because this investment refers not only to our own benefits, but to the eventual mutual betterment of everyone. It concerns cooperation towards this mutual advantage. Thus it becomes evident that indeed not every form of self-interest is morally acceptable, but only the ones which orient themselves to our own and simultaneously to the general betterment.

The summary of these considerations can be stated as a standard formulation, which reads: "Invest in social cooperation for mutual advantage!" This statement can be viewed as an economic rewording of the moral standard that is considered to be universal: the Golden Rule. This rule can be found in all major religions and teachings of wisdom. It expresses the idea of reciprocity, although oftentimes in a negative way. For instance, the fundamental text of Hinduism, the Mahabharata, states: "This is the sum of duty: do not do to others what would cause pain if done to you." A more colloquial version is "Don't do things you wouldn't want to have done to you". The positive formulation can be found, e. g., in the Matthew

(7:12) “Therefore all things whatsoever you would have men do to you, do you even so to them.” This normative logic of reciprocity can even be found in today's management lingo: Strive for win-win situations!

This fundamental norm grows in substance if it is enhanced through further considerations, which are likewise formulated in an economic sense: Investments are always targeted at some kinds of assets whether they are linked to commodity, financial, human or to other forms of capital. Even if the enablement of successful cooperation for mutual benefit depends on various assets, some deserve special emphasis from an ethical point of view.

First and foremost one has to name *human capital* – including such virtues as self-discipline, trustworthiness and social competence – as the most fundamental condition for any social cooperation. Secondly, it depends on *organizational capital*, being the foundation of successful coordination and motivation of the members of the organization, while precipitating in the formal and informal rules and structure of the organization. Both forms of capital require investments which usually pay off. The result of this is the idea of *the extended Golden Rule: Invest in the* ***conditions*** *which foster social cooperation for mutual benefit!*

This standard has the advantage of being compatible with various global value systems and therefore can be used as a global ethic which can be implemented as a basis to clarify issues such as “moral quality of market economy”, “corporate responsibility” and “effective and responsible leadership”.

3. The Moral Quality of the Market Economy

The market economy has always been subject to substantial criticism: It deepens the gap between the rich and the poor and competition is carried out at the cost of the weak and the environment. Not only does it foster selfishness and pursuit for profit but it also acts as a breeding ground for greed, avarice, and envy.

On the other hand there is no alternative economic system in sight which is able to satisfy the economic needs of millions (and in a globalized world – billions) of people, while also coordinating humanity in a way that gives everyone access to goods and services. Only a market economy is capable of providing people with the essential information and motivation that is necessary for the efficient production of goods and services. To that extent one can say that the market economy gains moral quality since it is a prerequisite for the maintenance of social order. Every other economic system is doomed to fail in today's global society and can therefore not be morally preferable.

In essence, the moral quality of the market economy is justified by the fact that it promotes the aforementioned function of morality—the channelling of self-interest which provides a basis for harmonic cohabitation. Put differently: the conditions of a (functioning) market economy urge people to invest in the necessary cooperation for mutual advantage and thereby encourages them to behave in accordance with the Golden Rule. This is done, however, in a way which is counter-intuitive, that is, with the help of a conflict mechanism: competition.

Since almost all humans as empirical beings are usually not inclined to render services for the benefit of others irrespective of one's own costs or benefits, competition under suitable rules acts as a highly effective disciplinary instrument which has the advantage of creating innovation and also serves as a tool of disempowerment, effectively limiting the possible misuse of power due to monopolies. *Competition is*, in other words, *a social instrument to foster a behavior according to the Golden Rule.*

This is true, however, only when certain conditions prevail: (1) Suitable rules, which secure returns for those that invest and make sure that competition does not become ruinous or goes at the expense of third parties, (2) the citizens' acceptance of the system—should the understanding of its moral quality fade, so will its functionality. (3) Any economic system based on freedom cannot prevail if that freedom is repeatedly abused—and the best institutions and judiciary system cannot compensate for this. Therefore a sense of responsibility is always required—meaning using one's own freedom while avoiding harm to a third party, therefore investing in the sustainability of one's own freedom.

It is exactly this last point that largely concerns the main players of the market economy—the corporations. That is why so much emphasis is put on corporate responsibility. The question is not only whether or not corporations do the occasional good deed. In fact, it is a question of whether or not corporations do their part in preserving and promoting the foundation of economic order.

4. Corporate Responsibility in the Market Economy

The discussion of corporate responsibility exhibits parallels to the discussion of morality and self interest. The fact that corporations strive for profit and competitive advantage is taken as a sign for their lack of responsibility. The reason is the belief that striving (only) for profits goes hand in hand with disadvantages for third parties and the environment. Consequently, morality (i.e. responsibility) and profit are perceived as a conflict.

When corporations try to respond to this perception and to demonstrate their responsibility by engaging in "good deeds" beyond their core business, like donations, pro bono projects etc., this does not help the situation. It is not unusual that such activities are understood as attempts by corporations to buy an indulgence, as it were, which confirms the preconception that the corporations' core business is oriented towards self interest—which in this case would be profit and not the common good.

It is clear that when the pendulum of conflict between morality and profit swings to the other extreme, in favour or morality and at the expense of corporate gains, this would imply an undermining of competition, along with its moral quality, and respectively its social function. Corporations simply cannot afford to be altruistic in a sense that they incur costs without having some kind of benefits. On the other hand, it is indeed not acceptable to have a narrow view in regards to profit which neglects the effects on a third party (i.e. through falsified reports, corruption, fraud, etc.) in order to create competitive advantage.

Therefore, morality and profit are neither principally in conflict nor generally aligned, it is rather the – demanding – task of management to avoid conflicts and to create conditions for "good", that is, effective and responsible leadership. This is, what the Golden Rule is about: the creation, preservation and promotion of those assets that are necessary for a long-lasting cooperation for mutual advantage. Business resources can be understood as assets that represent the prerequisites for a long term realisation of profits. Included in this are, for example, the aforementioned human capital or social capital—meaning the relations and networks in which companies are integrated which serve as a foundation for the creation of wealth.

It is particularly interesting to look at a specific asset which clarifies the consequences of the understanding the relationship between morality and self-interest—this asset being authenticity.

Sometimes, people equate authenticity with altruism or unselfishness. Individuals and organizations that are visible to the public for purposes other than those that are self-serving have a high degree of authenticity (i.e. Mother Teresa, Nelson Mandela, Amnesty international, and so forth).

At least in the case of non-governmental-organizations one may wonder whether or not they are pursuing their own interests (e.g. donations or social support) which may be coupled with those social goals (i.e. human rights or ecology). The actual concept of orientation towards the common good is not just to pursue *one* social goal but rather various different goals which exist in society. The associated and often difficult due diligence processes which also constitute the core of true responsibility, can be oftentimes overlooked by non-governmental organizations.

However, these questions are not to be pursued here, but rather the focus will remain on the idea that for corporations, an unsuitable and problematic concept of authenticity is manifested in perceived selflessness. In this sense, "perceived" typically means that one forces actions through visible prioritized and clearly defined social goals (as is the case for most non-governmental organizations), or when it becomes clear that through these actions, no personal advantage can be gained, which in fact is just another expression for selflessness.

Corporations are, however, in competition and therefore they are forced to align their strategies and behaviour towards the competitive advantage. Seen in this way, selflessness of corporations would be tantamount to a market exit strategy. Actions that are not in line with competition, preservation, and if possible accumulation of corporate value, are seen as unjustifiable in the long run. This is exactly why it is not a reasonable strategy when corporations try to demonstrate their "corporate social responsibility" through financing charity projects which are not in line with the corporation's core business. This is in fact creating the appearance that corporate responsibility is beyond the core business and not a part of it – and vice versa: that the core business has nothing to do with responsibility.

But how can corporations prove that they are authentic and trustworthy? In order to answer this question, one must consider what being trustworthy really means. When viewed in a closer light, it is once more the relationship between morality and self-interest which are at the center of this subject.

At first glance, being trustworthy seems to suggest that one acts “selfless”—. In fact it is generally more plausible to assume that people that are trustworthy or act authentically follow their enlightened self-interest. It is a reasonable investment in “conditions which foster social cooperation for mutual advantage” to inhibit one’s temptation of pursuing those interests which violate the legitimate interests of others and to bind oneself to rules which create respect and dependability, and in particular allows them to follow through with the promises that they make to themselves. It is exactly this commitment to rules and norms—which are observed even if a situation does not promote one’s own self-interest—where the true meaning of commitment and authenticity lies.

Corporations can also attain this type of authenticity, and investment in such an asset can be said to be tantamount to corporate responsibility. Authenticity described in this way does not mean that one should act against one’s own self-interest, but rather, use it in such a way that others are not harmed and that the expectations of business partners are met. One attains this authenticity when committing oneself to specific, implicit, or explicit rules and values and aligns one’s behaviour with them—when one walks the talk.

Alternatively, one can speak of (corporate) integrity. It expresses the fact that the stakeholders of corporations can be sure their (valid) interests are appropriately respected by the corporation. An upright (corporate) player should refrain from acting in opportunistic ways but rather in accordance with the Golden Rule: to show respect, honor trust, etc. as investments in those conditions which foster the sustainable “cooperation for mutual advantage”. Integrity understood in such a way, displays itself not only in words, but also in the way one deals with customers who have complaints, and employees who are having family difficulties, etc.

From a corporate point of view, the reason one should invest in integrity is that there are benefits to such behaviour. In particular, value is added through improved cooperation with various stakeholders. It should be noted however, that corporate integrity must be supported through clearly stipulated institutional structures and rules.

(Corporate) Integrity can be seen as an asset in that a notably upright corporation can more easily find cooperation partners (i.e. customers, suppliers, employees, investors, etc.), and in addition they can expect that decisions and negotiations will be reached relatively quicker and in a less complicated way, which makes the entire process more cost-efficient. Consequently, integrity lowers transaction costs. The value associated with integrity, and therefore the option for “improved” cooperation, is determined by the extent to which it can be used as collateral during the interaction with partners. If this is the case, then the enterprise has something to lose and accordingly has an incentive for behaving responsibly in order to maintain its reputation.

It seems that integrity is, like other assets, unattainable without cost. In other words, investments are necessary in order to build up and maintain this asset. For this purpose the arrangement of the previously mentioned corporate-internal structures is as necessary as the possible renunciation of profitable business, however debited towards third parties. Even such a renunciation of short-term gains is an investment into the conditions of long-lasting entrepreneurial success.

5. Corporate Leadership and the Golden Rule

Nowadays it seems to be difficult to find an enterprise that does not, more or less, extensively insist on taking corporate responsibility seriously. Nevertheless there are drastic differences in regards to the extent to which this demand is concretely realized.

Certainly the question of realization is influenced by a multitude of factors. However there should be little doubt that the most important factor of all is corporate leadership. It's influence is of the utmost importance due to the fact that the top management, esp. the CEO, is the representative and embodiment of the (self-) understanding that the employees have of their work and "their" corporation.

Corporate leadership has the task to create the conditions of efficient organisational systems which enable the corporation and with its resources in its surroundings to activate efficient competitive advantages and profits. The most basic condition is to win the people: Ultimately it is up to individuals (employees) to determine how successful and responsible a corporation is.

Undoubtedly, institutional frameworks like compliance-structures play and important role. However, the efficiency of formal compliance-structures turns out to be dramatically diverse and is dependent on whether or not the corresponding and legitimizing value-systems are communicated in an authentic manner. No monitoring system can steadily remain effective if it is not—at least rudimentary—understood and accepted by those individuals who have to adhere to it. The same holds true for legal institutions, corporate governance structures, and more concretely, codes of conduct.

Once again we can draw a link to the Golden Rule: A functioning compliance system poses an important condition for the successful cooperation for mutual benefit. This is the case because, especially in large groups, only with the help of a compliance system are corporations able to create the mutual reliance necessary for cooperation. It is also an investment in this asset if one takes the compliance procedures (and their situation-dependent implementation) serious in day-to-day business. This, however, has to be communicated successfully, that is, authentically!

The applicability of the Golden Rule in day-to-day business is nevertheless not limited to the above. Countless situations exist, be it efficient and pleasant team work, diligent risk management, or treating suppliers, media representatives, or officials with respect and fairness. Corporate responsibility can be exhibited through investment into reliability and integrity.

In this light, the central obligation of corporate leadership is, from a business ethics point of view, to teach the employees a corporation specific understanding of the Golden Rule. They should understand why it is as much in their interest as in the interest of the corporation or enterprise to handle their respective tasks responsibly, be it the introduction of a new product to the market, liquidity management, or simply postal duties.

The real challenge in this context presents itself by making the Golden Rule visible in complex daily operations. The keyword here is *consistency*. It is not useful—but more so it is counter-productive—if on the one hand mutual benefit or values (i.e. trust, integrity, respect, etc.) are emphasized but on the other hand employees do not concretely experience them in daily life. Values must be made to be applicable and to be enforced by making their importance in the corresponding situations transparent, and this is valid in all areas ranging from the configuration of governance-structures to the corporation-internal communication. In addition, it is essential to develop a realistic understanding of these values and to take into consideration the fact that humans are moral subjects possessing honour and are endowed with liberty, while they are at the same time self-interested beings.

6. Concluding Remark

One may wonder why people or corporations can, every now and then, be found *not* to behave according to the Golden Rule since its intention is to improve social cooperation and hence should be in the interest of all. The problem seems to lie in the fact that there exist apparently various *conditions* which prevent individual investments. Some of these conditions can be changed in order to foster "good management", some cannot. An implication for corporations is that they need both: On one hand the competence to organize the reconciliation of morality and profit by creating appropriate governance structures and on the other hand the ability to communicate authentically the reasons as well as the limits to do so.

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