Society and Business Review

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Article information:

To cite this document: Horst Steinmann, (2008), "Towards a conceptual framework for corporate ethics: problems of justification and implementation", Society and Business Review, Vol. 3 Iss: 2 pp. 133 - 148

Permanent link to this document:

<http://dx.doi.org/10.1108/17465680810880062>

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Towards a conceptual framework for corporate ethics: problems of justification and implementation

Conceptual
framework for
corporate ethics

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Abstract

Purpose – The paper aims to integrate central ideas about corporate ethics into an overall framework of corporate governance in modern market economies. A proposal for an adequate understanding of corporate ethics is outlined and, with this understanding as a background, problems of justification and implementation of corporate ethics are to be discussed.

Design/methodology/approach – In its philosophical part, the paper draws heavily on ideas developed around the German philosophical school of “methodological constructivism” (not to be confused with “radical constructivism”) which goes back to the works of Lorenzen, Mittelstraß, Kambartel, Gethmann, Janich, Wohlrapp *et al.* and which unfolds and defends a concept which C.F. Gethmann proposed to designate as “cultural pragmatism” as against the concept of “natural pragmatism” which originated in the USA. In its management part the paper relies on an interpretive approach to understand (reconstruct) the “raison d’être” of the private corporation in today’s market economies and its implications for management and management theory.

Findings – The process of justification of norms, intended to give useful orientation to our common life, must start on the pragmatic (instead of the semantic) level by reconstructing those basic differences and notions which have (thus far) proven as being successful for the coordination human actions. This is in our case the difference between peaceful conflict resolution (which is dialogic in character) and the use of power (in its manifold forms). Corporate ethics is, thus, understood here as a dialogical concept which contributes to the public interest (and national law) of making peace in and between societies more stable, and this by peacefully solving such conflicts with corporate stakeholders which result (or may result) from the choice of means (strategy) with which a corporation tries to make profits. It is in this capacity that corporate ethics adds a second dimension to the economic responsibility of management of private corporations which is to make sufficient profits (for the firm to survive under competitive conditions). This second dimension is part of what is called today corporate social responsibility. Integrating corporate ethics into the management process (planning, organizing, staffing, directing, control) requires that the principle of “primacy of corporate ethics” dominates all decisions and activities of the corporation, especially in dilemma situations.

Originality/value – The paper is part of the old dispute (in management theory, company law, etc.) about the “modern corporation and private property” stimulated (anew) through the seminal work of Berle/Means as early as 1932 and, later on, through institutional economics (“corporate governance”). It contributes to this discussion the proposal to integrate some (new) philosophical ideas of “cultural pragmatism” (a term proposed by the German philosopher C.F. Gethmann to mark the difference to the well-known “natural pragmatism” which originated in the USA) into management theory; moreover, some steps are made towards a conceptional framework of corporate ethics with the aim in mind to gain a new understanding of the relationship between private business and the public interest.

Keywords Management technique, Pragmatism, Conflict resolution, Society

Paper type Conceptual paper

1. Business practice and management theory

It is well known today that private business brings about a lot of conflicts with corporate stakeholders (external effects) which the law itself is often (and more and

more so) unable to settle satisfactorily in the public interest. This is already true for the nation state but is still more relevant today for the global economy, and this for many reasons, one being that there is no world wide political institution which can legitimately and effectively decide upon and enforce global rules (world law giver). Owing to these state and market failures the potential of private business to bring about (more or less severe) societal conflicts is constantly on the rise, locally, nationally, regionally and in the global context. The media report nearly every day about such conflicts, and NGOs keep us informed about corporate (mis-)behaviour (with respect to human rights see, e.g. www.business-humanrights.org). Thus, the question becomes more and more urgent what the loci of responsibility will be in the future to settle such conflicts peacefully, i.e. where (on what levels of governance) and how (with what institutional arrangements) is it possible to tie up entrepreneurial freedom with responsibility in such a way that the public interest of peaceful conflict resolution is effectively and permanently taken care of in corporate decisions and actions? And who are legitimate actors in this process?

There is general agreement today that these questions circumscribe one of the most important political problems of contemporary global capitalism (Scherer, 2003). And it is also widely recognized that we need new forms of “global governance” which integrate private and public actors, e.g. in (temporary) global networks (Annan, 2000; Reinicke and Deng, 2000) to create and enforce binding rules for (potentially) concrete conflict areas.

“Global rules and private actors” – this formula (Scherer *et al.*, 2006) captures, therefore, what is regarded today to be one of the most important research subjects of many academic disciplines, as, e.g. (political) philosophy, the theory of international relations, international law, sociology, economics and management theory. In my view it is only through interdisciplinary cooperation of all these disciplines that it will be possible to find practically useful answers to these difficult problems of global governance. And it is management theory which, as I see it, has to take on the responsibility not only to participate in this interdisciplinary dialogue but to take a lead (as mediator and translator between “praxis” and “theory”) in helping to direct it towards the needs of management practice and society at large (Steinmann, 2007, p. 8). Management theory should be regarded as the immediate address of business practice and is in this capacity closest to the practical problems just mentioned; this the more so since the (transnational) corporation itself has become one of the most important loci today where conflicts with stakeholders (about corporate strategy) originate and have (often) to be settled.

It is just for these developments in business practice that corporate ethics must become an integral part of management theory; and, more broadly, that management theory itself must become (again) more than simply applying institutional economics (transaction cost theory, principal agent theory, property rights theory, etc.) “top down” to managerial problems, as is the case very often today. Goshal (2005, p. 76) rightly criticised this development at American business schools and made the point that it was this narrow economic perspective which caused many MBA-students to regard their field (in theory and practice) as an a-moral one.

Instead, management theory must return to what it was supposed to become in its early days as an academic field:

The Academy of Management (AOM) was founded 45 years ago to serve the public interest. The public would be served by scholarship designed to help accomplish both the economic and social objectives of an industrial society (Editor's preface of the *Journal of the Academy of Management*, 1958, pp. 5-6, quoted from Walsh *et al.*, 2003, p. 859).

Walsh *et al.* show that, due to a narrow economic perspective growing constantly over the last 30 years or so, the social objectives of society have not received equal attention in management research as have the private economic interests of capital and labour; they propose some ideas to bring social welfare back in on the agenda of management theory, with corporate social responsibility and business ethics as part of it.

In view of this critique it is a pity that corporate ethics is up to now still more or less neglected in the curricula of management theory at German universities, too. There are, again, many reasons for this unsatisfactory state of affairs. Besides, the (still dominant) dogma of value freedom of science, one of the most important reasons seems to be that a well grounded and concise conceptual framework is still missing, a framework which is able to integrate satisfactorily the different rationalities (and their institutional implications) at stake: "economic rationality" as the dominant feature of any market economy and "communicative rationality" (or "reason") having its roots in our "life-world" (Habermas) and underlying corporate ethics. In what follows, we will elaborate somewhat on such a framework.

2. Corporate ethics – a short overview

My understanding of corporate ethics begins with the simple insight that, for a society of free and equal individuals, good governance, in order to successfully coordinate human actions (as the focal point of the argument), requires to reconcile individual freedom with the unity (or order) of society. Thinking "freedom and unity" together leads to the notion of "peace" as the "general and free consensus" (Lorenzen, 1987, p. 228). Peaceful resolution of conflicts is the fundamental value we focus on in our concept of corporate ethics (Janich, 1996, p. 121).

Peaceful resolution of conflicts does not result from the use of power (in its manifold forms); this is so because any change in the (historical) distribution of power between members or groups of society (due to power struggles or accidental changes in the bases of power) brings about new conflicts. It is only from argumentation (discourse, dialogue) as a manifestation of "communicative rationality" (Habermas, 1981) that peace may become more stable step by step which, in turn, is a fundamental precondition for the successful coordination of (economic) actions. To make peace more stable in and between nations (or societies) should, thus, be regarded as the reasonable (procedural) expression of (an important aspect of) the "public interest" or "common good" and as the basic value to direct institutional reforms (Scherer, 2003, p. 409).

To begin the whole argument this way would imply for corporate governance to understand the "raison d'être" of the private corporation in terms of its contribution to the public interest of peaceful conflict resolution. This implication seems reasonable in view of the following two arguments:

- (1) There is historical evidence that competitive market economies have a comparatively higher potential to reduce societal conflicts than have centrally planned economies, due to a more efficient use of resources which in turn reduces the scarcity of goods and, thus, conflicts. Note, that this argument is meant as

a historical (empirical) one and not as the result of any analytical modelling in economic theory, as, e.g. in welfare economics. This historical evidence points to what one may call the indirect contribution of private (profit-oriented) enterprise to the public interest. Referring in this way to the comparatively better economic effects of the (capitalist) market economy is a necessary step for the justification of private business and the maximization of profits.

- (2) That it is not, at the same time, sufficient follows from the general character of the argument. It abstracts from any contingencies, i.e. the concrete historical situation, (past) decisions and actions of the individual enterprise or competitors and so on, as a specific source of (potential) conflicts. It is here where corporate ethics comes into make the justification of private business at the same time necessary and sufficient. This is, at least, so if one understands corporate ethics as a direct contribution to the public interest, aiming to solve peacefully those conflicts between corporations and their stakeholders which follow (or might follow) from corporate strategy and which the (national) law alone cannot settle effectively (any more).

Viewed this way corporate ethics is about the means by which corporations try to make profits, not about the profit principle itself. Are these means acceptable from the moral point of view (of peaceful conflict resolution)? Money laundering, corruption and violation of broadly accepted social and environmental standards are only three well-known examples of moral scandals which threaten peace in many societies today and which have induced companies to embark on some kind of “social responsibility”: corporate social responsibility, corporate citizenship, corporate social initiative, business ethics and others are relevant catchwords today (unfortunately sometimes used without a clear notion).

It follows that corporate ethics, as we use the term, is intentional in the sense that what it requires is (always) a moral judgment about how conflicts with stakeholders might be solved peacefully, taking into account the relevant facts and contingencies. And this moral judgment must, in principle, be the outcome of a dialogue with stakeholders (and not a monological decision of management) – which follows directly from the notion of peace.

The result of the whole argument is, then, that corporate ethics should be regarded as an indispensable part of corporate social (societal) responsibility in private market economies (and not something which it is merely “nice to have”) – and this in addition to the economic responsibility for corporate profits. Both rationalities must be looked at as being integral parts of the economic order.

To reconcile both rationalities in specific historical situations and in view of concrete decisions to be taken always anew is the difficult task of management, a task which puts it quite often in a dilemma situation. In any case it needs institutional (organizational) structures which differ from those thus far generally employed under the regime of pure profit maximization. And it is management theory which must take on this challenge and reflect on how such structures to develop and implement corporate ethics may look like which we turn to below.

From this general perspective we can conclude that corporate ethics should be understood as a self-regulation device which is, as a moral duty, intended to support

the law as the primary peacemaking institution in and between democratic societies; and this in three concrete ways:

- (1) By making sure that corporate actions comply with the law. This is the “ethical minimum” which can be regarded as more or less generally accepted today, at least in democratic societies. An outstanding example is the “legality principle” of the Bosch company often cited; part of this principle is the important clause that complying to the rules of law must not be made an object of economic calculations by managers and employees.
- (2) Through efforts to complement national law in cases where legal provisions for peaceful conflict resolution are not (yet) in existence and/or are not effectively enforced, as is often the case in “weak-state-countries” found quite often in globalized business. Corporate codes of conduct and initiatives to fight sweatshop conditions in the sportswear industry worldwide (as with PUMA or Nike) are good examples here (Hartmann *et al.*, 2003).
- (3) By criticising existing law in order to bring about and support initiatives for reform where necessary to strengthen the link between private business and the public interest. Some companies in South Africa during the Apartheid regime can serve as an example here (Sethi and Williams, 2001). But also lobbying initiatives of corporations to change the rules of the game in a fair (peace enhancing) way (e.g. to overcome a “prisoners dilemma”) may be mentioned here.

Corporate ethics, understood in this threefold capacity, is meant here merely as a moral duty; the next step would be to have it as part of company law, either, in a narrow version, as an addition to what the law should regard as directors’ duties and liabilities (Steinmann, 2007, p. 10) or, in an extensive version, as the basis for a fundamental reconstruction of the corporation as a legal entity (Parker, 2002).

It goes without saying that this concept of corporate ethics can work satisfactorily only if all (relevant) actors who might get or are involved in conflicts with a corporation (e.g. competitors, labour unions, NGOs, international organizations) are willing and prepared to act in the public interest (of peaceful conflict resolution). Without such a basic commitment to the public interest of all parties to a conflict it may easily be that phenomena like the “band wagon effect” or the “prisoners dilemma” arise and prevent reasonable solutions. Obviously, this requirement has severe consequences especially for NGOs; they get in a role conflict between “campaigning” against a specific corporation or a whole industry (by exercising “countervailing power”) on one hand and the necessity to cooperate with management in order to improve the chances for peaceful conflict resolutions on the other (Löhr, 2005).

3. Corporate ethics and philosophy – the problem of justification

It should be clear by now that what we argue for is a concept of corporate ethics which comes close to what is called today “discourse ethics”, for peace as a “general and free consensus” is, as mentioned above, the (probable) outcome only, and only, of a (qualified) argumentative process which one may call discourse (or dialogue). What is called “stakeholder dialogue” today and which is actually institutionalized, e.g. by BASF (2007, p. 22), Nike (Zadek, 2004), PUMA (Löhr, 2005) or supported by the well-known global reporting initiative since several years may be considered as an attempt to realize discourse ethics (Gilbert and Rasche, 2007).

The philosophical question still to be answered is, of course, how the first (basic) notions of our concept, like “reason”, “peace” or “argumentation” can be introduced in a methodologically controllable way, and that is: in a way which is teachable (lehrbar) and apprehensible (lernbar) (Lorenzen, 1987). This requires (at least) three things:

- (1) a non-arbitrary beginning of the argument;
- (2) to develop the argument step by step (schrittweise); and
- (3) to avoid any vicious circle.

Obviously, the most difficult and contested problem is the first one. In what follows, I draw heavily on ideas proposed by the German school of “methodological constructivism” (not to be confused with what is today well-known as “radical constructivism”), developed by Kamlah and Lorenzen (1967), Lorenzen (1987) and in many papers by Mittelstraß (1974, 1989) and Kambartel (1989, 1992). Later on, it was further unfolded (especially with respect to the cultural dimension) by Gethmann (2007), Janich (2001) and Wohlrapp (1998, 2007). Gethmann (2007, p. 5) in his recent publication proposed the term “cultural pragmatism” for this school (to mark the difference to what he calls the concept of “natural pragmatism” which originated in the USA). This school is strongly based on what is known today as the linguistic and – especially – the pragmatic turn in philosophy.

There is, according to this school, no way to solve the problem of a proper (non-arbitrary) beginning of the argument if one starts on the semantic (or syntactic) level of language; this allows merely for nominal definitions. The only alternative to come to first substantial notions is, therefore, to begin on the pragmatic level. And this implies a shift from the observer’s perspective (as the third-person descriptive point of view) to the participator’s perspective (as the first-person normative point of view). As participators of our life-world we can, then, designate and reconstruct, on the level of language, fundamental categorial distinctions which capture successful practical knowledge, successful in the sense of promoting the sustainable coordination of our common actions (through peaceful conflict resolutions). Useful distinctions of this kind are (Janich, 2001, p. 25): action vs behavior, ends vs means, success vs failure, argumentation vs use of power (in its manifold forms), consensus vs compromise, etc. By reconstructing such (action-oriented) vocabulary in a methodologically controllable way one can come to a non-arbitrary semantic basis from which the process of justification can start.

Note, that where we begin here is not a “theory of the life-world” but the life-world as “praxis”; the idea to have a “theory of the life-world” as the starting point runs counter to the whole concept and leads to a vicious circle (Lueken, 2002). As part of the “context of reasoning” (and justification) envisaged here the word “life-world” is a reflexive term (Janich, 2001, p. 152) which marks the transition from a theoretical attitude (observer perspective) to practical (and only in this sense “life-world-oriented”) action (participator perspective) (Lueken, 2002, p. 69).

Kersting (2002, p. 279) comes close to this view when he introduces what he calls the “grammatical presupposition” of any pragmatic justification. He makes clear that for the process of justification (of norms) nothing else is available to the parties besides the well-known grammar of their rationality in which the patterns for their mutual understanding and unfolding of the world are integrated. This grammar is part of the

culture in which we grew up: we are born into a world which is formed by a net of notions and procedures of justification.

In applying these basic insights to our problem of corporate ethics we reconstruct, for the sake of demonstration, the notion of the word “argumentation”.

What we do when we argue is to propose reasons in support of (or against) a proposition or a claim and to scrutinize them to find out what could count, for the time being, as a “good reason”. Good reasons are those against which no objections are put forward (at the moment) any more. If “freedom from objections” (*Einwandfreiheit*) is reached we may say that the parties have come to a consensus.

This (short) reconstruction allows us to introduce the notion of argumentation. It is “symbolic action directed towards a controversy with the aim of overcoming it through a consensus” (Lueken, 1992, p. 218). Argumentation in this sense is a manifestation of “communicative rationality” (or reason). It is at the heart of peaceful conflict resolution and discourse ethics and marks – as mentioned already – the difference to the use of power (explicitly in this sense also Giddens, 1992).

Advancing in this “reconstructive” way one can unfold those presuppositions which underly the notion of discourse and which are well known from literature. Just to enumerate (from an open catalogue) the four most important ones (Habermas, 2005, p. 89): inclusion (of all who can probably make relevant contributions), equal opportunity for everybody to contribute to the dialogue, honesty (all partners must mean what they say) and absence of force to allow for the better argument.

These presuppositions of a (rational) discourse are meant to be, according to our understanding, the explication (*Erläuterung*) of an (already existing) praxis (or “culture”) of reason (Kambartel, 1989, p. 42) and not the result of a reflection on the “conditions of the possibility” of argumentation as in transcendental pragmatism (Apel, 1998). Of course, participants of concrete (historically situated) discourses may fail in paying (always) attention to these presuppositions; insofar one can say that they are “idealizations” (Habermas). But as such they are not arbitrary and utopian concepts (from the “heaven of ideas”) but stem from practically well-tried objectives underlying any (serious) attempt of argumentation (*Beurteilungspraxis*). Their epistemological status is best characterized as being “practically unavoidable” (Gethmann), namely if in a society one wants to solve conflicts peacefully at all, and not as “unconditional” (in the sense of values regarded as universally valid *a priori*, as is the case in idealistic philosophies).

Understood this way these presuppositions are the first (linguistic) building blocks of a general ethical theory (as an ethics of reason, of discourse and of peace), as shown in Figure 1.

Of course, due to its pragmatic origin this theory is “general” only relative to those places or parts (in the world) where an enlightened practice of reason does already exist, and this as a self-evident and routine part of every-day life, i.e. not merely existing in the heads of (some) philosophers or religious leaders. Note, moreover, that “relativity” as it is meant here is not equivalent to the term “relativistic” (in the sense of everything being equally valid). This follows from the notion of “universalization” (as a process) as being immanent to reason: everybody can contribute – probably good – reasons (in the future) to support or challenge a proposition or claim.

Our re-constructive (and thus culture-bound) approach to ethics throws, of course, new light on the difficult problem of how pluralistic forms of life can be made to

Figure 1.
Conceptual base of the
corporate ethics

co-exist peacefully, especially if to settle conflicts via argumentation is not a common practice yet. If it is, moreover, wrong to pretend that there do exist common values a priori and universal as such then there does not exist, on the semantic level, a common base for understanding and starting peace-making. In this case one has to begin with common practical actions in the life-world to construct, first of all, such a basis for mutual cooperation. How this can be done is, of course, the subject of highly controversial discussions (Wohlrapp, 1998). Anyway, what follows, e.g. from this perspective of "methodological constructivism" is that the claim that human rights have the status of a priori valid values is not correct; they owe, instead, their universal character to a historical and successful process of universalization (Scherer, 2003, p. 339).

Now, with these philosophical orientation in mind we can sum up our concept of corporate ethics (as discourse ethics) as show in Figure 1. The presuppositions of the discourse (left side), though culture-bound in the relative sense mentioned above, can be called context-invariant with respect to the historically situated (typical) problem areas of corporate ethics. As such they are, what we have called above "pragmatically unavoidable" (instead of "unconditional") presuppositions with respect to the – already generally accepted (and not merely "acceptable") – overall goal to make peace more stable in and between societies. For quite a few other norms there may exist already a more or less broad consensus as is claimed today to be the case, e.g. for the declaration of human rights. If this is the case such norms can be qualified as context-invariant, too.

The presuppositions accepted as context-specific, as in Figure 1, refer to the historical context to be taken into account when dealing with typical (more or less broadly defined) problems of corporate ethics.

As historical side conditions these presuppositions manifest what one may call the situational embeddedness of corporate ethics. This embeddedness is reflected in

the construction of a (selective) model of the specific historical context (as opposed to what is often called a description of the situation which is, of course, impossible to do because it would lead to an infinite number of sentences). There are many (potential) candidates to such a model (Margolis and Walsh, 2003, p. 293), as, e.g. the economic order and legal system of a country, the norms prevailing in an industry, the (international) competitive situation of a company and industry, the size and resources of a company available at a certain point in time, the existing corporate culture and many more. These presuppositions are either available in form of (more or less generally) accepted theories or must be investigated for the specific (strategic) decisions to be taken. In any case, they form the “empirical base” for the normative judgement about what action may be justifiable from an ethical point of view in a given situation.

The incorporation of the context-specific presuppositions in our concept highlights that corporate ethics (as applied ethics) is not simply about “principles” but makes only sense if one takes full account of the historical situation within which to act.

4. Corporate ethics and management theory: problems of integration

Figure 2 shows our concept of corporate ethics. It is part of what we may call the normative foundation of management, and this with respect to its procedures as well as results. Figure 2 shows that this foundation has two aspects: as factually existing norms (as in “being” or “Is”) they make up for the moral value base (in a culture of reason); as an “ought” they indicate the (critical) ethical reflection about the status quo of moral norms. Both dimensions are relevant in respect both to the economic as well as the societal (social) responsibility of management.

The factual (existing and changing) rules of law (and their enforcement) constitute, first of all, the economic system of western societies today. They are designed to coordinate entrepreneurial actions via their consequences, through the working of the price system. This brings about (positive and negative) incentives for effective and efficient management in a competitive market economy, with maximizing profits as the ultimate goal for the management of private enterprises (left side of Figure 2).

The rules envisaged on the right side of Figure 2 transcend the law towards what is called today corporate social (societal) responsibility, and this for all conflicts with corporate stakeholders caused by private business through “external effects” of corporate actions. According to our understanding of corporate ethics the coordination of actions is here via the intentions of all (collective) actors concerned and through voluntary self-commitment. This is meant, as indicated above, as a “moral duty” (contrary to what may be called “laudable doing” (*lößliches Tun*) which is voluntary and up to the “free will” or arbitrary decision of management). To have it otherwise would mean that the free enterprise system is prone to run counter to what we introduced as the “practically unalterable” precondition for peace in and between societies and, thus, counter to the public interest. It is here that we find the final reason why entrepreneurial freedom and responsibility must be understood as closely tied together (by institutional arrangements and corporate ethics) to make peaceful cooperation possible. In other words: corporate ethics is to be considered today, as indicated above, as an indispensable part of the overall (economic and social) order of good governance of any market-economy, and this on a national and global scale.

The left side of Figure 2, then, points in some detail to the (many) rules for institutionalising and legitimizing private business and the profit principle.

Figure 2.
Corporate management
and corporate ethics

The "licence to operate" a private business rests on all the norms developed in a specific nation state over the years and which include, e.g. laws, regulations, court decisions or customs of an industry. Besides, national regulations the rules become, today, more and more of a supra-national (European or even global) character.

These rules enable, foster and limit at the same time the scope of entrepreneurial freedom to set up and run an enterprise as an economic "nexus of actions" (Handlungszusammenhang). Some well-known and important rules are: property rights,

law of contract including the freedom to contract, law of fair competition, company law, labor law (including law of co-determination, as in Germany), capital market law, law for protection of consumers and environment, etc.

The right side of Figure 2 shows some rules and levels of corporate ethics. Appropriate rules may be developed here on corporate level as a solo attempt if enough scope for conflict resolution is available; and such rules may include also the whole value chain of a corporation, like with PUMA or Nike in the sportswear industry, with corporate dialogue as an integral part of the whole process of rule development. Or corporate ethics may go beyond the individual corporation in order to initiate concerted action on industry level. Or corporations must even act on the political level of a nation state to initiate adequate rules of law. In an era of globalization it turns out more and more, that it is necessary to look for conflict resolutions on a still higher organizational level of industry (as did the chemical industry with its world-wide program of “responsible care”) or politics (European Union, United Nations, etc.) or to seek cooperation between corporations, industry and the political arena, as is done with the “global public policy networks”.

The rules of corporate ethics refer to process and content. Process-oriented rules structure the process of ethics management. A good example are, e.g. the *US-Sentencing Guidelines* meanwhile well-known today (Desio, 2004) as part of the US criminal law. These guidelines require of corporations, *inter alia*, that they must have a code of ethics, a high-ranking ethics officer, suitable institutional provisions to control and sanction behavior; all this in order to qualify for substantial reductions in fine (up to 95 per cent) in case of criminal corporate action. These guidelines were more designed to assure compliance with the law; other concepts of process rules prefer the integrity (or value based) approach, a distinction introduced by Paine (1994) in her by now well-known HBR-article. Which of these approaches is best suited for the implementation of corporate ethics is still under discussion (Stansbury and Barry, 2007).

Content-oriented rules refer, on the other hand, to the results of discourses with stakeholders. Good examples are the social and environmental standards set up in the value chain of some important companies in the sportswear industry, as PUMA (Löhr, 2005, p. 182) or Nike (Zadek, 2004) which form part of the code of conduct of these firms.

The upper part of Figure 2 shows that all these rules are intended, as outlined above, to contribute to the public interest (of making peace in and between societies more stable).

The “economic” rules put this in effect indirectly via a “reduction of conflicts through reduction of scarcity”; this formula in Figure 2 shows to the argument mentioned above of a comparatively more efficient use of resources (compared to centrally planned economies) and a better provision of goods. The “societal” rules of corporate ethics are intended to contribute directly to peace through argumentative resolution of conflicts: “conflict processing through argumentation”.

It is in this way that, according to our concept of corporate ethics, the connection or nexus between the sphere of public interest (*res publica*) and the sphere of private business and (civil) society is established and continually kept up and renewed. The dotted line in Figure 2 shows the “interpenetration” (Richard Münch) of both areas. Consequently, the strict separation between “state” and “society” and the corresponding roles of “citoyen” and “bourgeois” (so characteristic of political liberalism) is no longer strictly upheld here.

As a consequence, those who participate in the process of private business remain, in principle and from the very beginning, legally and morally committed to the “res publica”. This is the ultimate rationale behind the “licence to operate” a private corporation. And it is from this republican perspective that the twin concept of “freedom and responsibility” mentioned above gets its proper sense as a fundamental precondition of any market economy, and this as a requirement for all economic actors: entrepreneurs and their organizations, workers and their unions, civil society and their NGOs, etc. It seems obvious that this republican perspective, and thereby corporate ethics, must gain in importance in the process of globalization if to stabilize world peace at all, as the necessary precondition for successful private business (Dubbink, 2003; Steinmann, 2003).

The problem of implementation of corporate ethics within the corporation (ethics management) is shown in the middle of Figure 2. It is characterized by the tensions (dilemmas) between the requirements of economic rationality on one hand and of communicative rationality on the other. The problem is where (on which levels of management) and how (with what institutional arrangements, regulations and individual behavior) management should try to handle (overcome) these dilemmas in view of the respective (historical) side conditions under which specific decisions have to be taken.

We sketch only a few problem areas to indicate the richness of problems to be treated by a theory of ethics management. The decisive point is here that dilemmas, by its very nature, cannot be “solved” in advance (via planning) through general (organizational) rules; what is needed are, rather, abstract values (as part of the organizational culture) which leave more freedom and flexibility to take into account the specific circumstances relevant for reasonable decision making at the lower echelons of the hierarchy.

According to Figure 2 it is, first of all, on the level of the corporate constitution (corporate governance) that those overall fundamental values should be laid down which are expected to govern all corporate activities. Novo Nordisk did this in 2004 by integrating such values in the articles of association (UN Global Compact/Office of the United Nations High Commissioner for Human Rights, 2005, p. 102). Moreover, and on a more concrete level, the ethical values must become part of all managerial functions (planning, organizing, staffing, directing, control) and, starting from there, must become an indispensable part of the different fields of business and all functional areas of the transformation process (finance, information processing, marketing, production, procurement, etc.), and this on “corporate” and “business” level. It is obvious that these requirements for modern management will fundamentally change the traditional theory of the firm as developed in the context of institutional economics (Roberts, 2004); Palpacuer (2006) has outlined relevant issues for management researchers with respect to “globalization and corporate governance”.

To be somewhat more concrete let us shortly refer to three problem areas of ethics management.

One fundamental problem is the broadening of the information base for corporate decisions through new instruments of environmental analysis for strategic planning. As an example one can point here to the “Human Rights Compliance Assessment” developed by the Danish Institute for Human Rights (Kristensen, 2005, p. 385).

A second and closely related problem is the reform of all activities of corporate communication. It is the discursive character of corporate ethics which will affect all traditional areas and instruments of corporate communication, not in the sense of

replacing them but in the sense of developing new concepts which integrates both the requirements of economic and communicative rationality. Zerfaß (2004) has convincingly worked out such a concept.

And finally corporate ethics opens new horizons for the problem of motivation, this within the context of all managerial functions, but primarily within “staffing” (human resources management) and “directing” (leadership). Think of the impact of organizational rules or the leadership style on the extrinsic and intrinsic motivation of people. It was only shortly that psychological economists have drawn our attention to the “repression effect”: measures to stimulate extrinsic motivation may repress intrinsic motivation (Osterloh and Frey, 2000). So it seems that all attempts to implement corporate ethics solely or even mainly through measures of extrinsic motivation (as is mostly the case with compliance approaches mentioned above) are prone to fail – as compared to integrity approaches which rely primarily on intrinsic motivation. A combination of both may best solve the control problem (Stansbury and Barry, 2007).

One quickly realizes that such considerations point to the necessity to de-centralize traditional hierarchical organizational structures and organizational cultures (to a certain extent), and this in a way discussed already for a long time under conditions of “post-industrial” management (Crozier, 1991, p. 43). Of course, these general orientations must be worked out in more detail for all five managerial functions (Steinmann and Scherer, 2000, p. 171). These functions must be transformed in such a way that more room is given to discursive approaches by integrating lower management levels (and employees) in the decision process (in a sense of a broader understanding of the old term of “participative management”). Moreover, traditional instruments of HR-management are effected. To make the corporation more sensitive to ethical considerations performance appraisal systems or selection procedures must be adapted to these new objectives. And the same is true for control systems. Here, we know the adverse effects which control systems may have on the motivation of those controlled (Ghoshal and Moran, 1996).

In conclusion, what corporate ethics requires of the reform of managerial structures is that these structures must allow, in case of dilemma situations, that the profit motive does not dominate or even repress, from the very outset, all endeavours towards thoroughly scrutinizing the means with which a corporation makes its profits. This is a fundamental requirement which follows from the principle of primacy of corporate ethics. And this principle itself follows from the insight that corporate ethics is to be understood as a manifestation of the public interest which must take precedence over pursuing private interests (of unrestricted profit maximization) in order to have a good chance for a peaceful coordination of economic activities.

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