Journal of Private Enterprise, Volume XXI, Number 2, Spring 2006

Foundation and Form of the Field of Business Ethics

Lori Verstegen Ryan
San Diego State University

The common quip that "business ethics is an oxymoron" has its roots in the general public's disbelief that businesspeople regularly engage in ethical behavior. Even if they do so at home, they assume, once within the confines of the corporate arena, they revert to a Hobbesian form of brutishness. Surprisingly, those working in the academic field of business ethics are similarly skeptical of business actors' behavior, and generally see their mission as the reform of both capitalism and capitalists.

This article will explore the genesis of the field's critical stance on markets and businesspeople, and examine its primary critiques. It will also briefly outline the work being done by the minority of free-market scholars who engage the field and suggest how this "defensive" position could be shored up.

Narrowing the Scope

The field of "business ethics" may seem somewhat amorphous to the layperson, but it has relatively clear boundaries in academic circles. Within the structure of philosophical thought, "ethics" examines how people should conduct themselves, and, under that umbrella, business ethics is an "applied ethics" field much like medical ethics or journalistic ethics. Within the field of business ethics itself, a strong dichotomy exists between psychological work (e.g., businesspeople's moral decision-making methods) and normative theory (i.e., how people should behave in a business context). With one important exception, discussed below, few attempt to bridge the divide, given the philosophical injunction concerning the "is-ought" dichotomy.

Notably, within the business-school academy, several specialties focus on ethical issues. The accounting field has its own code of professional ethics, and its issues now merit a dedicated journal, the *Journal of Accounting, Ethics & Public Policy,* and "accounting ethics" workshops hosted by the American Accounting Association. Similarly, "marketing ethics" research is published in marketing journals and discussed in dedicated workshops co-hosted by the American Marketing Association. Even respected finance journals publish (notably classical liberal) articles on ethics topics; the specialized needs of this field have also resulted in two book-length treatments focused specifically on ethics in finance. The Management discipline, however, is the center of the field in American business schools, and home both to business-ethics courses and to the most influential journals in the field of "business ethics." The most visible journals, the prestigious *Business Ethics Quarterly* and the near-monthly *Journal of Business Ethics,* have established area editors in these other business-school specialties, in an effort to be more inclusive of marketing, accounting, and even legal scholarship.

This discussion, then, will limit itself to the Management-based academic field of "business ethics," from the perspective of the United States, which is widely agreed to be slightly more conservative in tone than the equally robust European field. While the area is also treated in a variety of topical—including free-market-oriented—journals, those discussions remain outside the academic conversation being examined here.

Foundations of the Field

The field of business ethics was destined to be economically and politically liberal, in the modern and not the classical sense, given its dual genesis in business schools and philosophy departments. The field's business-school roots can be traced back to the University of California-Berkeley in the 1960s, where many of the first leaders of the nascent Business and Society field worked or were trained. Early research in this area focused on corporations' "social responsibilities" and sought economic reforms to assuage the inequalities perceived to be inherent in capitalism. These liberal scholars, resident in business schools' Management departments, helped to establish the broader "social issues in management" field that later spawned the more specialized area of business ethics.

As noted above, however, the field also embraces philosophers' normative theory. The financial scandals of the 1980s led to a sudden demand for ethics training for business students, which philosophical ethicists were happy to entertain. These philosophers' traditionally "hostile attitudes" toward business (1996: 490) may have contributed to a lack of respect for capitalism and markets in the fledgling field. While often located in Philosophy departments, many philosophically-trained business ethicists have now migrated to tenured posts and even endowed chairs in business schools, any of which is far more lucrative than a position in Philosophy.

Thus, the field rests on a dual foundation of liberal Management scholarship and liberal Philosophy scholarship. In the classroom, both groups tend to follow one of three approaches to teaching business ethics: a "standard" model that focuses on teaching students the (predominantly liberal) normative moral theories discussed below, an Aristotelian "virtue"-focused model, or a "politics" model . Professors who use the politics model strive to "understand, assess, and perhaps modify the socioeconomic context...that frame[s] the moral choices that confront individuals," which often leads to critiques from a Marxist or immoral-market perspective (1996: 496). Those instructors who have a more neutral or positive view of capitalism tend to turn their—and their students'—attention to corporations' social responsibilities and the question of whether firms should do "more" than maximize profits.

The Fields of Engagement

While business-ethics professors have both a significant and a long-lasting influence in the classroom, they also make a crucial intellectual and policy impact through their published research. This section considers the areas where mainstream business ethicists are focusing their efforts in both the classroom and academic scholarship.

Core Ethical Theories

A first critical area that reinforces the modern, not classical, liberal nature of the business-ethics field lies in its choice of core philosophical theories. A 1981 seminal article by three now-senior scholars in the field set the stage for the Management academy's understanding of ethical theory. Ironically, the article's focus was organizational politics, but its coincidental impact on the nascent field of business ethics was far greater. The authors presented three theories as being fundamental to philosophical ethics: utilitarianism, rights, and justice. Given that the article was published in the Management field's top theoretical journal, this pronouncement carried enormous weight with Management professors. At the time, they were aspiring to gain some philosophical sophistication in order to compete with professional ethicists for lucrative business-ethics positions in American business schools. The echoes of that article continue to resound in the field's current textbooks and research.

The utilitarian perspective discussed in the article was the traditional approach to maximizing the common good. The justice position was exemplified by John Rawls' then-recently published *A Theory of Justice*, making the point that social systems should be established so that they improve the position of the least-advantaged members.

The inclusion of rights theory in the triad presented an opportunity to promote Nozick's timely and influential work, *Anarchy, State and Utopia.* However, instead, the authors described the prevailing rights position by outlining five "employee rights" based on the U.S. Constitution: rights to free consent, privacy, freedom of conscience, free speech, and due process. Positive rights have been dominant in discussions of employee rights since that time. Although Nozick's negative rights theory is now often noted briefly in textbooks' overviews of rights theory, it is virtually never used as a basis for ethical argument in the business-ethics literature.

Over the last two decades, the strongest contenders for addition to normative business-ethics theory have been a communitarian version of virtue theory, a feminist "ethic of care" theory, and integrative social contract theory. Social contract theory has proven to be the most influential, in part because of the timeliness of its explicit focus on international business. Social contract theory argues that businesspeople should adhere to two global "hypernorms" when doing business: respect for core human rights and respect for human dignity. These two hypernorms are argued to be unobjectionable to people from virtually any philosophical, religious, or cultural perspective. Notably, however, the core human rights include the rights to both subsistence and physical well being, which are clearly incompatible with a classical liberal approach. Once businesspeople have satisfied hypernorms, they must also comply with subordinate "authentic norms" specific to each local economy. The dominant ethical theories in the field of business ethics are clearly contrary to classical-liberal tenets, focusing on issues of social justice. Even discussions of "rights" theory tend to involve positive employee rights.

"Normative Psychology"

A second demonstration of the business-ethics field's modern, not classical, liberal tendencies lies in its psychological arm. While, generally, the psychological and philosophical approaches to business ethics remain separate, some attempts have been made to use psychological surveys to link businesspeople and business students to ethical theories. Soon after the publication of the "ethical triad" noted above, an influential study presented marketing managers with a variety of business scenarios, and they were asked to choose among utilitarian-, rights-, and justice-oriented responses. The managers overwhelmingly chose the responses that the researchers identified as utilitarian, with rights responses a distant second, and justice an even more distant third. Ensuing studies achieved similar results.

More recent studies in this area, however, have offered respondents "egoism" as a theoretical alternative. One study concluded that their undergraduate business students were overwhelmingly "utilitarian egoists," and a more recent study found MBA students to be strongly egoistic.

While ostensibly "value-free" psychological studies, these authors demonstrate disdain for what they consider to be their subjects' weak moral positions. Indeed, their usage of "egoism" is clearly of the "subjective" variety as opposed to "objective." The former emphasizes maximizing one's subjective view of one's own good in the short term, while the latter is a more Aristotelian- or Randian-based egoism, based on building the best version of oneself over a lifetime. If subjects choose behaviors that are, even in part, in their own interests, researchers brand them as "egoists," and load them with all of the intellectual and emotional baggage associated with the subjective form of the term. These studies generally conclude that business students, and therefore businesspeople overall, are morally wanting. Some do argue, though, that while business students are more egoistic, more mature businesspeople are predominantly utilitarian, which is seen as a slight improvement.

Stakeholder Theory

The business and society field's most successful assault on free-market thinking has taken the form of "stakeholder theory," which claims that the corporate executive's job is to balance the needs and desires of various corporate constituencies. That position is contrasted in the literature with "stockholder theory," which generally follows Friedman's position that executives should maximize profits "within the rules of the game."

Work in this area has taken three forms: descriptive stakeholder theory, which simply reports on managers' attitudes and behaviors toward corporate constituencies; instrumental stakeholder theory, which explains how managers should act to garner cooperation from various constituencies, in order to maximize shareholder wealth; and normative stakeholder theory, which claims that executives should provide for their constituents' needs and desires—even at the expense of profit—because it is the right or moral thing to do.

This distinction in usage is critical, because of the "stakeholder" term's increasing prevalence in corporate annual reports and mission statements. The first of these three views is purely descriptive and therefore unobjectionable, and the second simply endorses motivational methods that good managers have traditionally used to increase shareholder wealth. It is with the third that the normative business-ethics field takes aim at "stockholder theory" itself, arguing that shareholders have no greater claim on the profits of a corporation than do other stakeholder supplicants. This argument is made possible by the business-ethics field's general disbelief in shareholders' ownership of corporations (Ryan, 2000).

Their position has its roots in the classic Berle and Means argument that, with the separation of ownership and control, the "atom of property" exploded and the property rights that had previously inhered in the manager/owner disappeared. Berle and Means themselves observed that managers' liberation from owner control opened the question of to whom firms were ultimately responsible. Normative stakeholder theory has attempted to fill that supposed conceptual void.

As noted above, the relative success of this business-ethics argument rests partly in the widespread use of the "stakeholder" term by businesspeople, themselves. Promulgators of the normative position quite freely borrow support from businesspeople's acceptance and use of the term, whether used in a normative fashion or not.

A critical additional signal concerning the theory's success is the recent readiness of respected free-market theorists to engage these theorists on their own ground. Revered financial economist Michael Jensen carefully explained the shortcomings of the theory in a recent article in a highly ranked finance journal, lending the theory some level of credence simply by giving it his attention. In addition, respected legal theorists Marianne Jennings and Stephen Happel took on the theory's weaknesses in a recent legal review article, sanctioning it simply by virtue of engaging it. Previously, "stakeholder theory" had been below the radar of such scholars.

More Classical Liberal Approaches

While the business-ethics field is overwhelmingly modern liberal, both economically and politically, some market-oriented researchers—primarily those writing for this special issue—are involved in the mainstream business-ethics literature. The most prolific scholar taking this stance is Ian Maitland of the University of Minnesota, who has published numerous articles in the *Business Ethics Quarterly* and *Journal of Business Ethics*. He has offered the field a tactful, free-market perspective on the ethics of markets and corporations, corporate governance, pharmaceutical pricing, employee rights, and self-interest.

More recently, firebrand Alexei Marcoux has contributed works to the mainstream literature arguing directly against the stakeholder view. Legal scholar *cum* business ethicist John Hasnas has also explored and commented on the normative theories in the field from within, concluding that stockholder theory is, indeed, morally supportable.

My own work in the area has focused on the rights and responsibilities of shareholders in business ethics, arguing that they do, indeed, own corporations, that they should actively participate in corporate governance, that investors perceive less financial risk in firms whose managers foster trust, and that the advent of institutional investing should compel researchers to rethink the assumptions underlying both stakeholder and agency theory.

This handful of Management researchers represents a marginal position in a field intent on capitalistic reform. On the other hand, Finance scholars are more likely to take a pro-market stance toward business ethics, but they seldom publish in the field. One exception, Finance Professor John Dobson, has published an explicit defense of the "stockholder view" in *Business Ethics Quarterly*, and had earlier discussed corporate reputation as a market mechanism that helps to control firms' unethical behavior. Similarly, Marketing Professor Jerry Kirkpatrick has published a major egoistic defense of advertising, and has suggested a Randian foundation for business ethics.

A slightly different but notable case is Objectivist organizational behavior scholar Ed Locke's more oblique contribution to the Management field's ethics conversation. It began when researcher Tom Becker published a rare objectivist rationale for honesty in organizations in the Management field's top theoretical journal, a stance that immediately drew a critical response from the majority position . Locke promptly joined Becker in the debate, offering a rebuttal to the criticism. Nine months later, a further rejoinder was published with yet another rebuttal. While not explicitly linked to the ongoing business-ethics conversation, this year-long exchange led to the highest possible level of visibility for a classical liberal, philosophical argument in the Management literature.

An Eye to the Future

It is highly likely that the business-ethics field will continue along its 40-year, modern liberal trajectory. However, classical liberals interested in helping to shape the field have several avenues available to them.

First, classical-liberal scholars in business ethics should stay the course. Most academics who enter the field do so as an adjunct to a "line" function, such as marketing or strategic management in the business school or ethics in Philosophy. Those who arrive with classical-liberal tendencies are often surprised by the modern liberal (although accepting) population of the field. Many soon conclude that their line functions are better suited to their proclivities and exit or demote business-ethics research, or at best publish ethics works in their functional journal outlets. Scholarly perseverance would help to bolster the classical liberal position in the mainstream business-ethics literature.

Second, classical-liberal scholars should carefully consider their ethical underpinnings. As Machan (1987) and Hasnas have argued, the utilitarian argument for capitalism, dominant among both classical liberals and free-market economists, is an easy target for those with varying interpretations of the "common good." While some works are written from the perspective of rights or promise-keeping, most rely on utilitarian, efficient-markets arguments. Others take a more pluralist perspective and argue that their position aligns with a variety of ethical positions. Thus, even the few classical-liberal academics at work in this field are divided by inconsistent moral arguments. Scholarly debate of this topic among these researchers could offer a fruitful opportunity for visibility in the mainstream business-ethics journals.

Finally, classical-liberal scholars interested in having an impact on the field should consider publishing their work in the mainstream business-ethics journals. Significant work has appeared in journals marginal to the field, or in pamphlet form, or in small-run, edited free-market books. Similar works, if published in *Business Ethics Quarterly,* for example, would help to build a critical mass of classical-liberal research that could begin to influence the direction of the field. In addition, more free-market advocates should attend the annual conferences of the Society for Business Ethics or the International Association for Business and Society. Several of the authors in this issue have a presence in these organizations, but more participants could help to stem the liberal tide.

Those classical liberals outside of academe who are interested in supporting these efforts could make a variety of contributions. First, they should recognize the potential damage being done by those adopting "stakeholder" terminology in any form. The normative version of this theory relies on the rejection of shareholder primacy in corporations, driven by a disbelief in investors' property rights. As discussed above, rightly or wrongly, stakeholder theorists gain credibility by pointing to the term's infiltration into everyday business language. Second, supporters could encourage and fund academics who are willing to take the minority classical-liberal position in this debate through their research or conference participation. Increasing the number of classical liberal voices in the field could help to shape its future.

While populated primarily by modern liberal scholars, the business-ethics field offers important opportunities for classical-liberal scholarship. To date, the field has begun to make inroads into public policy and law, by advocating virtually uncontested liberal positions. By building the minority position into a critical force, "business ethics" could begin to take on a slightly more balanced tone.

References

AAA. 2005. Tenth symposium on ethics in accounting. Accessed at http://aaahqorg/AM2005/spe/cpe07.htm on June 7.

AMA. 2005. Notre Dame and AMA co-sponsor ethics workshop. Accessed at http://www.marketingpower.com/content24687.php on June 7.

Aristotle. 1985. *Nicomachean Ethics.* T. Irwin, translation. Indianapolis, IN: Hackett Publishing Co.

Barry, B., and C. U. Stephens. 1998. "Objections to an Objectivist Approach to Integrity." *Academy of Management Review*, 23: 162-169.

Becker, T. E. 1998. "Integrity in Organizations: Beyond Honesty and Conscientiousness." *Academy of Management Review*, 23: 154-161.

Berle, A. A., and G. C. Means. 1991/1932. *The Modern Corporation and Private Property*. Revised ed. New Brunswick: Transaction Publishers.

Boatright, J. R. 1999. *Ethics in Finance*. Malden, MA: Blackwell Publishers.

Carr, A. Z. 1968. Is Business Bluffing Ethical? *Harvard Business Review* Jan./Feb.: 2-8.

Cavanagh, G. F., D. J. Moberg, and M. Velasquez. 1981. "The Ethics of Organizational Politics." *Academy of Management Review*, 6: 363-374.

Child, J. W., and A. M. Marcoux. 1999. "Freeman and Evan: Stakeholder Theory in the Original Position." *Business Ethics Quarterly*, 9: 207-222.

Dobson, J. 1989. "Corporate Reputation: A Free-Market Solution to Unethical Behavior." *Business and Society*, 5, Spring: 1-5.

Dobson, J. 1997. *Finance Ethics*. New York: Rowan & Littlefield.

Dobson, J. 1999a. "Defending the Stockholder Model." *Business Ethics Quarterly*, 9: 337-345.

Dobson, J. 1999b. "Is Shareholder Wealth Maximization Immoral?" *Finance Analysts Journal*, 55(5): 69-75.

Donaldson, T., and T. W. Dunfee. 1999. *Ties That Bind: A Social Contracts Approach to Business Ethics*. Boston, MA: Harvard Business School Press.

Donaldson, T., and L. E. Preston. 1995. "The Stakeholder Theory of the Corporation: Concepts, Evidence, Implications" *Academy of Management Review*, 20: 65-91.

Epstein, E. M. 1999. "The Continuing Quest for Accountable, Ethical, and Humane Corporate Capitalism." *Business and Society*, 38: 253-267.

Friedman, M. 1970. "The Social Responsibility of Business Is To Increase Its Profits." *New York Times Magazine*: 32-33.

Fritzche, D. J. and H. Becker. 1984. "Linking Management Behavior to Ethical Philosophy—An Empirical Investigation." *Academy of Management Journal*, 27: 166-175.

Hasnas, J. 1998. "The Normative Theories of Business Ethics: A Guide for the Perplexed." *Business Ethics Quarterly*, 8,1: 19-42.

Jennings, M. M., and S. Happel. 2003. "The Post-Enron Era For Stakeholder Theory: A New Look at Corporate Governance and the Coase Theorem." *Mercer Law Review*, 54: 873-938.

Jensen, M. C. 2001. "Value Maximization, Stakeholder Theory, and the Corporate Objective Function." *Journal of Applied Corporate Finance*, 14: 8-21.

Jones, T. M. 1980. "Corporate Social Responsibility Revisited, Redefined." *California Management Review*, 22, 3: 59-67.

Kirkpatrick, J. 1992. "Ayn Rand's Objectivist Ethics as the Foundation of Business Ethics," in R. W. McGee (ed.), *Business Ethics and Common Sense*: Westport, CT: Quorum Books.

Kirkpatrick, J. 1994. *In Defense of Advertising: Arguments from Reason, Ethical Egoism, and Laissez-faire Capitalism*. Westport, CT: Quorum Books.

Locke, E. A., and T. E. Becker. 1998a. "Objectivism's Answer to the Sad, Old World of Subjectivism." *Academy of Management Review*, 23: 658-

659.

Locke, E. A., and T. E. Becker. 1998b. "Rebuttal to a Subjectivist Critique of an Objectivist Approach to Integrity in Organizations." *Academy of Management Review*, 23: 170-175.

Machan, T. R. 1987. "A New Individualist Basis for the Free Market." *International Journal of Social Economics*, 14, 10: 27-39.

Machan, T. R. 1990. *On Teaching Business Ethics.* Washington, D.C.: The Heritage Foundation.

Mack, E. 1984. "The Fundamental Moral Elements of Rand's Theory of Rights." In D. J. Den Uyl and D. B. Rasmussen (eds.), *The Philosophic Thought of Ayan Rand.* Urbana, IL: University of Chicago Press.

Maitland, I. 1989. "Rights in the Workplace: A Nozickian Argument." *Journal of Business Ethics*, 8: 951-954.

Maitland, I. 1994. "The Morality of the Corporation: An Empirical or Normative Disagreement?" *Business Ehtics Quarterly*, 4, 445-458.

Maitland, I. 1997. "Virtuous Markets: The Market As School of the Virtues." *Business Ethics Quarterly*, 7: 17-32.

Maitland, I. 1998. "Community Lost?" *Business Ethics Quarterly*, 8: 655-680.

Maitland, I. 2002a. "The Human Face of Self-Interest." *Journal of Business Ethics*, 38: 3-17.

Maitland, I. 2002b. "Priceless Goods: How Should Life-Saving Drugs Be Priced?" *Business Ethics Quarterly*, 12: 451-480.

Marcoux, A. 2000. "Business Ethics Gone Wrong." *Cato Policy Report*: 22, 1.

Marcoux, A. M. 1998 "Who Are The Stakeholders? The Failure of the Stakeholder-as-Contractor View." *Business & Professional Ethics Journal*, 17: 79-108.

Marcoux, A. M. 2003. "A Fiduciary Argument Against Stakeholder Theory." *Business Ethics Quarterly*, 13: 1-24.

Nozick, R. 1974. *Anarchy, State, and Utopia*. New York: Basic Books, Inc.

Orlitzky, M., and D. Jacobs. 1998. "A Candid and Modest Proposal: The Brave New World of Objectivism." *Academy of Management Review*, 23: 656-658.

Rand, A. 1961. "The Objectivist Ethics," in *The Virtue of Selfishness*. New York: Signet Books.

Rawls, J. 1971. *A Theory of Justice*. Cambridge, MA: Harvard University Press.

Richards, C. H. J. Gilbert, and J. R. Harris. 2002. "Assessing Ethics Education Needs in the MBA Program." *Teaching Business Ethics*, 6: 447-476.

Ryan, L. V. 2000. "Shareholders and the Atom of Property: Fission or Fusion?" *Business & Society*, 39: 49-75.

Ryan, L. V., and A. K.Buchholtz. 2001. "Trust, Risk, and Shareholder Decision-making: An Investor Perspective on Corporate Governance." *Business Ethics Quarterly*, 11: 177-193.

Ryan, L. V., and M. Schneider. 2002. "The Antecedents of Institutional Investor Activism." *Academy of Management Review*, 27: 554-573.

Ryan, L. V., and M. Schneider. 2003. "Institutional Investor Power and Heterogeneity: Implications for Agency and Stakeholder Theory." *Business and Society*, 42: 398-429.

Shaw, W. H. 1996. "Business Ethics Today: A Survey." *Journal of Business Ethics*, 15: 489-500.

Smart, J. J. C. 1978. "Distributive Justice and Utilitarianism." In J. Arthur and W. H. Shaw (eds.), *Justice and Economic Distribution.* Englewood Cliffs, NJ: Prentice-Hall.

Solomon, R. C. 1992. *Ethics and Excellence: Cooperation and Integrity in Business.* New York: Oxford University Press.

Treviño, L. K., and G. R. Weater. 1994. "Business Ethics/Business Ethics: One Field or Two?" *Business Ethics Quarterly*, 4: 113-128.

Werhane, P. H. 1985. *Persons, Rights, and Corporations.* Englewood Cliffs, NJ: Prentice-Hall.

White, T. I. 1992. "Business Ethics, and Carol Gilligan's 'Two Voices'." *Business Ethics Quarterly*, 2: 51-61.

Wood, J. A., J. G. Longenecker, J. A. McKinney, and C. W. Moore. 1998. "Ethical Attitudes of Students and Business Professionals: A Study of Moral Reasoning." *Journal of Business Ethics*, 7: 249-257.