

## Business Ethics

*John Hyde*

Last year, to my surprise, the Western Australian Government largely escaped condemnation for its WA Inc activities. I had expected old-school moralisers to be more angry than they were about misrepresentation and breach of the trust any government has to its taxpayers, and I had expected new-left moralisers to protest more than they did about Labor dalliance with the very type of big business it liked least. True: not all that we now know was believed then, but the confusion ran deeper. People were unclear about the moral dimensions of events that were well known---events about which my parents, for instance, would have had no doubt.

And, during the prolonged attention by the media to the Bond Empire I have been struck by the lack of sophisticated normative evaluation of matters such as the use to which Bell Resources' cash reserves were put, the rights of minority shareholders, and the moral, as opposed to the purely legal, obligations of directors and auditors. It was the same with the Quintex saga.

Libel law is, no doubt, one reason for the paucity of ethical debate. It is indeed difficult to discuss real Australians, in real situations, in normative terms.

Another, I think more important, reason why businessmen escape effective ethical criticism is that the concept of ethics in business has become mush. For this I blame utopians of every stamp who have so successfully vilified business. Plays, soap operas, novels and songs tend to feature only the worst sort of businessman.

Businessmen are not, however, conspicuously prone to pillage and murder. To maintain an image of universal villainy, therefore, critics of capitalism invented moral obligations which applied to business alone---obligations that could ultimately apply only to the men and women who ran businesses. These duties have been expanded to the point where the term 'business ethics' has become almost meaningless. More is now expected of the modern manager than that he do the best he can with his shareholders' capital, obey the law and satisfy the time-honoured personal requirements of truth,

generosity and courage. Instead, he is expected to manage 'the good corporate citizen'---whatever that is.

It is a measure of the sloppiness of current thinking that moral, as opposed to legal, judgements are being made about companies, instead of the men who run them---this tends to let those who actually make the proper or improper decisions off the hook. One reason why this has happened is that 'good', as it is applied to the 'corporate citizen', is boundless and therefore meaningless. To be 'good' a business might have to meet the demands of the firm's own industry, its competition, its unions, the relevant companies office, the NCSC, the environment, the government, charities, the arts, sport, the anti-smoking lobby, women, and racial minorities. Obviously so called 'good' activities will conflict, and in any case the demands of the more powerful vested interests are not, in themselves, ethical criteria.

Corporate executives themselves are far from blameless for this sloppy thinking. Through sheer intellectual laziness (or gutlessness) they allow their clearly avowed opponents to dominate the debate. Speech after corporate executive's speech adopts the language of collectivism, giving away the justification for private ownership in a market economy. It seems almost a point of honour among some executives not to admit that capitalism is ethically based---let alone seriously discuss what the base is.

They do not overtly acknowledge that the rights and responsibilities of businessmen, qua businessmen, are derived from inalienable rights and inescapable responsibilities that apply to everyone and which are the moral foundation of our liberal society. Inevitably, in these circumstances, the knowable, limited frame of reference by which businessmen might reasonably judge their own actions and be judged is lost.

It does not matter, ethically, if they run high-risk enterprises or cautious ones. It does not matter, ethically, that some businesses should lose money and fold---corporate businessmen are required to try, not necessarily to succeed. It does matter, however, if they do not make every reasonable endeavour to honour their freely-contracted undertakings, including the contract with their shareholders. It matters, because it is a breach of that contract, if they use shareholders' funds to feather their own or friends' and relatives' nests, overpay secretaries from whom they expect sexual favours, or live high at company expense. It matters when they cheat their staff or customers. It also matter when they are not frank with people---such as shareholders and bankers---with whom they have contracted to be frank.

To better ensure that the obligations of truth and contract---including the special contractual arrangement that gives some people trusteeship of others' capital---are honoured, many second-order obligations, such as the obligation to avoid conflict of interest, have been developed.

Some of these have been given the force of law. The principles are really quite simple. And they work.

Capitalism channels man's natural cupidity into productive activity. It was not invented but gradually grew out of attempts to satisfy mankind's needs. Capitalism is potentially a very efficient human arrangement, but one which depends for its success upon respect for its own ethic of truth and contract---and upon sanctions for breaches of that ethic.

It also depends on certain mechanisms. For it to work best, means by which risk may be spread, such as limited liability, are needed. Mistakes must incur losses which encourage correction of the errors and, except where the government interferes, the market does this. There must be mechanisms to change the poor management of assets: for this we have bankruptcies and takeovers. High risk activity is not, in itself, a bad thing, however.

We tend to believe bankruptcy causes the unemployment of people and assets, but in doing so we confuse cause with effect. So far as the economy is concerned, bankruptcy is not a big deal. If the Bond companies should fall over, the beer will still taste as good, Channel Nine will still broadcast and 'The West Australian' will still publish. All that will have happened to the physical economy is that some over-valued assets will have been decapitalised and new management introduced. If, on the other hand, we allow the ethics of the market to be undermined, the damage to liberal society could eventually be terminal.

*John Hyde is Executive Director of the Australian Institute for Public Policy*

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