Aristotle in the modern corporation: From codes of ethics to ethical culture

Deon Rossouw
University of Pretoria

Abstract

After a number of spectacular moral failures in corporations despite them having had codes of ethics and ethics programmes, it has become clear that a mere reliance on codes of ethics and ethics compliance programmes is not sufficient to safeguard organisations against serious ethical failures. The insight has dawned that transformation on the deeper level of organisational culture is required. This emphasis on corporate ethical culture is evident in the revised American Federal Sentencing Guidelines for Organisations as well as in the draft of the Third King Report on Corporate Governance for South Africa.

The shift from an emphasis on corporate compliance to an emphasis on corporate culture represents a shift from an act-based approach to ethics to an actor-based approach to ethics. Instead of focussing on rules of behaviour, the focus shifts to virtues of actors in the latter approach. This brings the tradition of philosophical virtue ethics into play. The question that will be addressed in this article is: 'Can a neo-Aristotelian approach to virtue ethics be accommodated in modern capitalist corporations?'

Drawing on Alisdaire MacIntyre's interpretation of the Aristotelian virtue ethics tradition as well as his critique of late capitalist organisations the possibilities and constraints of neo-Aristotelian virtue ethics for the cultivation of corporate ethical culture will be explored.

1. Introduction

In recent years there has been an unprecedented interest in corporate governance around the world. Whereas the term 'corporate governance' was seldom, if ever, mentioned till 1990, the exact opposite has since happened. Corporate governance has become a central concept in mainstream corporate discourse, to the extent that the Second King Report on Corporate Governance for South Africa already in 2002 proclaimed that

while the 20th century can be regarded as the century of management, "the 21st century promises to be the century of governance" (IoD, 2002:14).

The waves of corporate governance reports and corporate law reforms that followed the publication of the Cadbury Report on Corporate Governance in 1992 in the UK, were often in direct response to scandals that prompted business communities or governments to take pertinent action to restore trust in corporations. The above mentioned Cadbury Report, is widely regarded as a direct response to the Maxwell scandal that rocked the UK in 1990 while the Sarbanes-Oxley law in the US was prompted by the spectacular collapse of Enron and WorldCom. The point that corporate governance reform is often an attempt to restore trust in corporations that has lost the trust of society is well illustrated in the fact that the report on corporate governance reforms required in MCI (the former WorldCom) is titled: "Restoring Trust" (Breeden, 2003).

The aim of corporate governance reform is to ensure that corporations run their business in a manner that will promote both efficiency and responsibility. It is for this reason that the objective of corporate governance is sometimes referred to as 'enterprise with integrity'. Although corporate governance has many dimensions dealing with various aspects of corporate performance and conformance, one of the ways in which corporate governance promotes the responsibility of corporations is by emphasising the role that Boards of Directors has to play in ensuring that corporations comply with well defined ethical standards in their interactions with internal and external stakeholders. There is thus not only an ethical imperative underpinning corporate governance, but also a pertinent imperative to manage the ethics of corporations inherent in the concept of corporate governance.

In an attempt to manage the ethics of modern corporations, codes of ethics have become a particularly popular managerial instrument to direct and control the ethics of corporations. A code of ethics can be defined as a "document or agreement that stipulates morally acceptable behaviour within an organization" (Rossouw & Van Vuuren, 2004: 216). Codes of ethics can vary on a spectrum from short value-based aspirational documents that articulates the core ethical values or standards by which an organisation intends to abide, to very detailed directional guidelines that prescribes specific behavioural standards to members of organisations.

The usefulness and effectiveness of codes of ethics had been a popular topic of debate in business ethics discourse and still remains so. Moore (2006) provides a succinct overview of this debate and points to the ambivalent record of success of codes of ethics over a 25 year period. What is, however, clear is that codes can range from documents that are mere words on paper with very little impact on organisational behaviour to documents with high symbolic significance for and behavioural impact on organisations.

Currently there is move within the field of organisational ethics that has the potential of destabilising the central position that codes of ethics have played thus far in the governance of corporate ethics. This move has been triggered by an acknowledgement by both political and corporate leaders that a too strong focus on codes of ethics and their implementation can give rise to a compliance mentality that does not translate into deep cultural change in organisations. The revised Federal Sentencing Guidelines for Organisations in the US (Desio, 2006) as well as the draft version of the Third King Report on Corporate Governance for South Africa allude to the importance of making corporate ethical culture, rather than codes of ethics the focal point in the governance of ethics.

This move from corporate codes of ethics to corporate ethical culture represents in my mind a shift from a more act-centred approach to ethics to a more agent-centred approach to ethics in corporation. In the case of codes of ethics the focus is often on specific actions that employees of organisations should either abide by or avoid altogether. In the case of corporate ethical culture, the focus rather shifts to certain qualities of character that the organisation as a whole and its members should display. The focus is thus more on the character traits (or virtues) of the organisation and its members.

The act-centred approach to ethics is mostly a product of the modern era. In an attempt to keep up with the success of natural science in the modern era, moral philosophers formulated moral laws (like Kant's categorical imperative and Mill's greatest happiness principle) that provided criteria for distinguishing acceptable from unacceptable behaviour. The roots of the agent-centred approach, however goes back to Greek philosophy. In the remainder of this paper I wish to focus on the Aristotelian notion of agent-centred (or virtue) ethics in order to determine what implications such an approach holds for the governance of ethics in organisations. In particular I will engage with Alasdair MacIntyre's interpretation of neo-Aristotelian virtue ethics as articulated in his *After Virtue* and subsequent publications. I will first provide a synoptic overview of his version of virtue ethics and then close this paper by speculating what such an understanding of virtue ethics might imply for the development of corporate ethical culture.

2. MacIntyre's neo-Aristotelian virtue ethics

In his rendition of Aristotelian virtue ethics, MacIntyre admits to revising some of Aristotle's ideas on virtues significantly (1985:196), but believes that his version of virtue ethics still remains true to the basic tenets of Aristotle's ethics (1985:197-199). Like Aristotle, MacIntyre believes that ethical

behaviour (or moral agency as he prefers to call it) is premised upon a process of intra-personal character formation. One needs to develop certain traits of character or virtues that will dispose one to consistent ethical behaviour in any and all domains of life. Ethical behaviour is thus closely related to the virtues of constancy and integrity (cf. 1999a: 317). Although virtues refer to intra-personal characteristics or learned dispositions, it does not imply that individuals develop their virtues in isolation. In contrast to Aristotle who defines virtues in relation to the human *telos* of *eudaimonia*, MacIntyre's situates the development of virtues in a three dimensional concentric context that consists of practices, narrative and tradition. Each of these contexts has a distinctly social character.

Virtues originate according to MacIntyre within practices or social settings where people collaborate and compete with one another in order to achieve certain objectives that are internal to those social practices. Such social practices are for example, chess, painting or fishing – to use three of MacIntyre's favourite examples (cf. MacIntyre, 1985: 187-191, Higgins, 2003:287 and Howarth, 1995:516). Within these social settings persons acquire through effort, self-discipline and reciprocal learning the excellences or virtues that are required to attain the objectives of that specific social endeavour.

However virtues cannot merely be developed within the context of social practices, because different social practices might make conflicting demands upon the individual. Therefore something more comprehensive than the demands of social practices is required to develop the appropriate virtues. This wider context or second concentric circle is the narrative of a human life as a whole. MacIntyre argues that the virtues acquired in practices should be related and aligned to one's quest for living a meaningful life. The virtues should thus find their relevance and significance in relation to one's story of what makes one's life worth living. But one's story of what constitutes a meaningful life is never designed in isolation from others, but in conversations with significant others in one's life.

Our stories about the meaning of our social practices and individual lives need to be related to an even wider context, which are the traditions within which both our social practices and our individual lives are situated. These traditions have the character of ongoing conversations about what is good and what matters both in our social practices and in our lives as a whole. Such traditions form the widest context or outer concentric circle that our individual virtues should be aligned to.

From the above account of MacIntyre's notion of virtue ethics, it should be evident that although his ethic is an agent-centred one, it is by no means anti-social. In this regard his version of virtue ethics is also typical Aristotelian. MacIntyre is acutely aware that the social settings within which

we work and live have a crucial impact on our intra-personal character development. He harbours deep suspicions about the impact that modern social structures have on the development of character. He is particularly scathing in his critique on the corporations of our late modern era and the role that they play in undermining our sense of moral agency and virtues (cf. 1985: 74-76; 1999(a); 1999(b):145). The kind of social institutions that MacIntyre thinks would be conducive to the process of moral character formation are rather utopian, but then he immediately pre-empts any critique on his utopian ideas by insisting that "trying to live by Utopian standards is not Utopian" (1999:145).

3. Virtues in the modern corporation

In closing this paper I now want to experiment with what MacIntyre's notion of a neo-Aristotelian virtue ethics might mean within the context of the current move from codes of ethics to corporate ethical culture.

The most basic presupposition of an approach to corporate ethics premised upon the moral character of a corporation and its members - rather than the moral correctness of the actions of the corporations and its members – is that some form of moral character formation needs to happen within the corporation and its members. However, the problem with modern corporations is exactly that they have succeeded in effectively blocking out any emphasis on personal moral development. Taking its cue from the idea that the purpose of business is to maximise profits for its shareholders, as well as the idea that the only interest of rational economic man or "*homo economicus*" (Mintzberg, Simons & Basu, 2002: 68) is to maximise personal wealth, an instrumental mentality that seeks to find the most effective means to financial gain became dominant in business. This mentality rendered an emphasis on personal moral values not only irrelevant, but also superfluous to the modern corporation. The financial and reputational damage suffered by corporations as a result of scandals and unethical behaviour, made corporations aware that economic objectives need to be pursued within the 'rules of the game' thus resulting in an emphasis on codes of ethics to ensure that employees stay within the boundaries of acceptable behaviour. This realisation fuelled the development of codes of ethics, but still did not allow for a focus on the development of moral character within the modern business corporation. The fact that scandals and unethical behaviour continued despite the introduction of codes of ethics and ethics management programmes to ensure compliance to such codes of ethics, has now opened up the opportunity to move beyond codes to corporate ethical culture – that is, to focus not only on actions but also on the moral quality of the character of the corporation and its members.

To facilitate such a transition from compliance with codes to the formation of moral character, the first requirement to be fulfilled by corporation is to allow talk about and opportunity for the formation of moral character. Business leaders and managers will have to make clear that the attainment of business goals is intimately linked to the moral quality of the corporation and its members. In this process an exclusive focus on short-term financial gain will have to be down-played and the indispensable role of moral character for sustainable relations with the corporation's stakeholders – upon whose co-operation the corporation ultimately relies for attaining its economic objectives - will have to gain in prominence. The narrow rationality of '*homo economicus*' will thus have to be traded in for a broader rationality that allows for both economic and ethical concerns within business as usual.

Taking the logic of MacIntyrian neo-Aristotelian virtue ethics one step further, it is not sufficient to only focus on moral virtues of corporations and their members in pursuit of economic objectives, as such a narrow focus may lead not only to moral inconsistencies, but also to a deformed morality. What is needed to correct the deficiency of a business morality (or a corporate ethical culture) that has been developed merely in pursuit of economic objectives, is to situate moral character within a wider narrative context. This wider narrative context is constituted by the question about the role of corporations in society, i.e. the question on what good do corporations contribute to society.

The notion that corporations earn moral legitimacy merely by pursuing economic objectives within the rules of the game is loosing legitimacy. The idea that corporations have to take on responsibilities that transcend pure economic obligations has already been recognised and found its way into mainstream corporate discourse via concepts like *corporate social responsibility*, *corporate social investment* and *corporate citizenship*. What is thus needed to facilitate a meaningful discourse about moral virtues within corporations is to pose the question about the purpose and role that corporations have to play in maintaining a secure and healthy society. The moral virtues that corporations require in pursuit of their economic sustainability will therefore have to be aligned with the moral characteristics required by corporations that serve the safety and well-being of the societies in which they operate.

According to the logic of a MacIntyrian neo-Aristotelian virtue ethic, one further step in the process of virtue cultivation is required: that is to put the quest for a meaningful contribution of business to society and to the good life in general within the even wider context of the tradition. The MacIntyrian notion of tradition entails an ongoing conversation about what is good and what matters both in our social practices and in our lives as a whole. Situating the quest for corporate virtue within the context of tradition

consequently implies that our current responses to the question about the role and purpose of business in society should be compared to how that role and purpose have been conceived of within the longer tradition of both capitalism and democracy. It is not a case of aligning current understandings of the purpose of the corporation with traditional understandings thereof, but a matter of engaging critically with a long standing conversation on the relation of business to society. In this critical engagement with the tradition of thinking about the role of business in society, our current understanding of that relation can be transformed and enriched, but so can the tradition of such reflection be similarly transformed and enriched. It is according to MacIntyre (1985:222) a sign of a tradition in good order that it is constantly open for renewal and revision.

4. Conclusion

The shift from corporate codes of ethics to corporate ethical culture opens the opportunity for modern corporations to engage with the tradition of virtue ethics. This engagement with virtue ethics challenges corporations to engage on a more profound level with morality than codes of ethics have compelled them to do. They will have to move beyond the mere moral acceptability or unacceptability of specific behaviours and engage with the moral character of the corporation and its members. Not only does this move imply an engagement with ethics on a much deeper level of transformation, but also a critical review of the purpose of business in society as well as a critical engagement with the way in which the role of business in society have been perceived till now. Given that the economic, social and environmental challenges that corporations are currently facing, have to a large extent been created by corporations, such a profound engagement with the moral character of corporations and their purpose and role in society is overdue.

Bibliography

Breeden, R.C. 2003. *Restoring trust*. New York: Report to the United States District Court for the Southern District of New York.

Desio, P. 2006. *An overview of the organizational guidelines.* [online] (Accessed November, 30, 2006). Available at: http://www.ussc.gov/corp/ORGOVERVIEW.pdf.

Higgins, C. 2003. MacIntyre's moral theory and the possibility of an Aretaic Ethics of Teaching. *Journal of Philosophy of Education*, 37(2): 279-292.

Horvath, C. M. 1995. Excellence v. effectiveness: MacIntyre's critique of business. *Business Ethics Quarterly*, 5(3): 499-532.

IoD. 2002. *King Report on Corporate Governance for South Africa 2002*, Johannesburg: Institute of Directors.

McCann, D.P. & Brownsberger, M.L. 1995. Management as a social practice: rethinking business after MacIntyre (pp. 508-513). In: Stackhouse, M.L., McCann, D.P., Roels, S.J & Williams, P.N. (eds), *On Moral Business*. Grand Rapids (Mi): Wm. B. Eerdmans.

MacIntyre, A. 1979. Corporate morality and moral judgement: are they mutually exclusive? In Goodpaster, K. & Sayre, K.M. (eds.) *Ethics and problems of the 21st century*. Notre Dame: Notre Dame University Press.

MacIntyre, A. 1983. Moral philosophy: What next?. In, Hauerwas, S. & MacIntyre, A. (Eds) *Revisions: changing perspectives in moral philosophy*. Notre Dame: University of Notre Dame Press, pp. 1-15.

MacIntyre, A. 1985. *After virtue*. London: Duckworth

MacIntyre, A. 1990. *Three Rival Versions of Moral Inquiry: Encyclopaedia, Genealogy and Tradition*. Notre Dame (In): University of Notre Dame Press.

MacIntyre, A. 1994. A partial response to my critics (pp. 283-304). In: Horton J. & Mendus, S. (eds.), *After MacIntyre*. Cambridge: Polity Press.

MacIntyre, A. 1999a. Social structures and their threats to moral agency. *Philosophy,* 74, pp. 311-329.

MacIntyre, A. 1999b. *Dependent Rational Animals.* London: Duckworth.

Mintzberg, H., Simons, R. & Basu, K. 2002. Beyond Selfishness. *MIT Sloan Management Review*, (Fall): 67-74.

Moore, G. 2006. Managing ethics in higher education: implementing a code or embedding virtue? *Business Ethics: A European Review*, 5 (4): 407-418.

Rossouw, D. & Van Vuuren, L. 2004. *Business Ethics* (3rd edition). Cape Town: Oxford University Press.