Toward Professional Ethics in Business

J. N. Hooker
Graduate School of Industrial Administration
Carnegie Mellon University, Pittsburgh, PA 15213 USA
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Abstract

Before a code of professional ethics can be formulated for business managers, it must be understood why management should be considered a profession and what should be its central mission. This paper proposes answers to these questions.

1 Introduction

There are two kinds of ethical obligation in business. There are obligations that business people have simply as human beings. There are further obligations they have as members of a profession.

There is a difference. If a friend tells you that you should take an aspirin a day to prevent heart disease, then you don't really expect him to know what he is talking about. The friend should be sincere and perhaps should practice what he preaches before offering advice, but you would expect nothing more. If a physician, however, advises you to take an aspirin a day, you expect her to have expert knowledge on the subject and to weigh your individual case carefully before prescribing medication.

Most people, when confronting a choice, are faced with one question.

1. What should I do as a human being?

The professional, when confronting a choice, is faced with three questions.

2. What should I do as a human being?
3. What should I do as a professional?
4. If there is a conflict, how should I resolve it?

Conflicts are possible. For example, a physician may feel that a situation calls on her to assist in euthanasia. Medical ethics, as traditionally interpreted, proscribes euthanasia on the ground that it is harmful to the patient. This interpretation has become controversial, but suppose for the moment that it is correct. The physician must decide whether the special obligations of her profession override the obligations that would otherwise bind her as a human being.

Unlike medicine and law, business is not even in a position to pose the second and third questions above. There is no generally accepted code of professional behavior in business, beyond the basic duties of honesty, etc., that apply to human beings in general. It is not even obvious to everyone that business people should be considered professionals. The aim of this paper is to address this failing. It suggests why business ethics have been slow to evolve, why we need professional ethics in business, and what their content might be. But before this can proceed, there must be some clarification of what professional ethics are and why we have them.

2 Why Professional Ethics?

We have professions for a reason. It is summed up in the example of the physician who prescribes aspirin: we need to know whom we can trust to apply expert knowledge. If physicians did not identify themselves as members of profession, it would be much harder to know.

The two key words here are expert and trust. Two defining traits of a profession are

- expertise in a particular area, and
- the disposition to apply it responsibly.

The first item calls for professional competence. The second calls for professional ethics. The third defining trait is,

- the members of a profession profess.

They identify themselves as members of a recognized order, so to speak, so that others know they can be trusted. In fact the original sense of the word ‘profess’ is to take the vows of a religious order.

On this understanding of a profession, it is clear why professional obligations can, and perhaps should, occasionally conflict with normal obligations. Consider again the physician. Imagine there is a drug that is routinely used in other countries but is not yet approved in her country. Imagine further that she believes the patient should have the drug, but she is bound by professional ethics not to prescribe it. Perhaps there is social value in having medical professionals who can be relied upon to prescribe medication conservatively, even when they believe the approval process is too slow or too cautious. If so, this sort of conflict should be expected on occasion.

The meaning of professional ethics comes into relief when the three questions above are applied to this situation. The first question is one of values: it asks what is the physician’s obligation as a human being. She has resolved that the medication ought to be prescribed. The second question is a question of fact: what in fact are professional obligations in this case? This is a question of fact because it is essentially sociological in nature; what are the expectations for professionals in this matter? Expectations are the key issue, because the profession exists precisely to generate certain expectations for the knowledge and behavior of its members. In this case it is supposed that physicians are expected to prescribe only drugs that are approved in their country. The physician may of course ruminate about whether this ought to be a professional obligation, and whether it should be is genuinely a value question. But it is a question distinct from that of what is in fact dictated by professional obligation.

The third question, as to how personal and professional obligation should be reconciled, is a value question. The physician's views about what ought to be in the professional code of ethics, for example, may now be relevant. She can address the reconciliation issue in several ways. Two are obvious. She can practice by the book and eschew the medication, or she can ignore the rules and prescribe it. A third response is step out of her role as a physician, or attempt to do so. At one extreme she can turn in her white coat, stethoscope and physician's certification. She can say: "as you see, I have abandoned the practice of medicine so that I could get some of this stuff for you and urge you, as a friend, to take it." At the other extreme she can try to renounce medicine momentarily. She might simply hand over some pills with the comment, "I want you to know that I'm giving you a drug that physicians are not supposed to prescribe in this country." It is not even clear that it is possible to renounce membership in a profession quickly or temporarily. But the main point here is to distinguish the various questions and responses so that they can be considered in a clear-headed way.

To test your grasp of these distinctions, determine what is wrong with the following statement on the part of the physician. "Medical ethics forbids prescribing this drug, but in my professional judgment this is a mistake, and as your physician I recommend that you take it." This statement confuses professional and personal ethics. Being a professional is essentially a social concept, because it is membership in a group of people who profess to ad- here to certain standards. It makes no sense to profess and to reject these standards simultaneously.

Now test your understanding by examining this statement. "Medical ethics forbids prescribing this drug, but a true professional should ignore this fact and prescribe it anyway." An individual physician cannot change professional standards by fiat, because she cannot change expectations single-handedly. Perhaps professionals as group should change the rules and thereby change expectations, but this is a different matter.

3 Why Professional Ethics in Business?

Medicine, law and teaching are generally regarded as having an underlying mission. One can go into medicine or law to become rich and famous, but one can also enter these fields to heal the sick or to do justice. By contrast, business is not generally viewed as having a service mission. Business people often get involved in community service, but this is ancillary to business as such. Business, on the received view, is something one does to get rich or simply to make a living.

This may explain why there are no well developed professional ethics in business, and why business is not even unambiguously regarded as a profession. There is no need for business people to identify themselves to others as professionals, because theirs is not essentially an occupation that serves others.

On a moment's reflection, however, this view is preposterous. Business generates the wealth that makes everything else possible. Business people not only make money for themselves, but they generate wealth in the sense that they create value. They take raw materials, labor and capital and manage their transformation into valuable goods and services. The work of a factory manager or a loan officer may not have the air of noble service we might associate with a heart surgeon who wrestles with death over an operating table, or a lawyer who courageously defends the rights of the disadvantaged. But the wealth generating engine they administer makes healing and justice possible. Anyone who doubts this can take a look at nations that are too poor to afford a medical infrastructure or to rescue more than a privileged few from destitution.

If the work of business is of such central importance, why is it not regarded as a service occupation? Part of the answer seems to lie in the widely held idea that business is a self-regulating mechanism. One only has to read his Adam Smith to know that if the market system is allowed to operate according to its own laws, it will align selfish interests with the common interest. The equilibration of supply and demand will adjust prices so that activity that profits the individual will supply the needs and wants of others. Business undoubtedly renders a service, but unlike medicine, law or the clergy, it need not be self conscious about its service role. Business functions just as well, perhaps better, when everyone involved goes about the business of getting as rich as possible. A business profession, because it would oblige business people to become self conscious about their service role, would only gum up the works.

The market system is not completely self-regulating, however, and no- body really ever said otherwise. Even the most strident laissez faire economist concedes that trade is possible only within a framework of law and fair dealing. As for Adam Smith, he strongly emphasized the economic importance of underlying moral sentiments and wrote a whole book on the topic—*The Theory of Moral Sentiments*, which tends to be cited much less often by conservative economists than *The Wealth of Nations*. (Barry Schwartz discusses this point in Chapter 6 of [2].)

One must bear in mind that the Smithian view (and some other aspects of popular political philosophy in the United States) grew out of the so-called Enlightenment period of Western history. During this period many in the intelligentsia rejected traditional religion, in favor of a human-centered approach based on rationality. They were unprepared to jettison religious ideas completely, but if rationality is to work, the world must be intelligible to human beings and therefore free of divine intervention. This gave rise to deism, which is basically the view that God set in motion a law-governed universe and then stepped back out of the way. His direction remains evident, however, in the orderly mechanisms that operate as if guided by an invisible hand—whence Smith's famous imagery. In the realm of physical phenomena we find the beautiful simplicity of Newton's laws. Even in morals there is natural law; we inherit from this era the idea of a conscience, which was then conceived as a mental faculty that allows one to understand moral law, much as a talent for mathematics allows one to understand a proof. And in economics? Here the Creator has again installed a mechanism, the law of supply and demand.

Faith in a self-regulating market system, then, dates from a time when intellectuals felt a need to find divine providence in the world. A more realistic view is that a market economy is a complex dynamic system with many feedback mechanisms, some of which are indeed stabilizing, such as the equilibration of supply and demand. Others are destabilizing, such as the tendency for resource prices to reflect short-term supply. Managing the economy is a matter of applying controls in areas where they are needed. Ethical behavior is one of these areas. Not only does trade rely on honest dealing, but a long series of studies of capitalism, beginning with Max Weber's treatment of the Protestant work ethic [4], have tied its success to more highly developed moral dispositions. Most recently, Francis Fukuyama argued in 1995 [1] that economic success in a capitalist system requires a high level of trust, and therefore trustworthiness, among the players. Yet even after rejecting a naive faith in a self-regulating economy and accepting the economic importance of moral dispositions, one may doubt the need to professionalize business. The business virtues of industry, honesty, trust, etc., are virtues for humanity in general. Perhaps there are no special obligations incurred by a business role.

Clearly not every job in the business world calls for professionalism. A cashier's incompetence or dishonesty will quickly become evident. There is no need for a professional certification. At the opposite extreme, there are some business specialties in which no one doubts the need for professionalism. The fundamental role of accounting, for example, is universally recognized, and incompetence or dishonesty in this area might not come to light until much damage is done. Perhaps also the need for accounting professionals is acknowledged because it does not call into question the ideology of a self-regulating market.

The key players in business, however, are the managers, and there is reluctance to burden them with obligations beyond those of making a profit and adhering to the traditional virtues. Consider, however, the responsibility they bear. They are entrusted with vast amounts of capital, often representing the life savings of investors. At the stroke of a pen they provide or withhold the livelihoods of their employees. Their decisions collectively make the difference between economic growth and prosperity on the one hand, and decline and the social decay that inevitably follows on the other. Their incompetence can topple the economic system that sustains us. Mismanagement of savings and loan institutions in the United States, for example, obliged the taxpayer-funded Federal Savings and Loan Insurance Corporation to bail out the system with such massive subsidies that it is remarkable how little outrage resulted. Equally fragile world trade and monetary systems have no such savior.

When managers rise through the ranks of a single firm and remain attached to it after reaching positions of authority, their ability to perform may be evident enough. But managers increasingly migrate from one firm to another, and in a post-downsizing era firms rely more than ever on inherently transient consulting services. Beyond this, senior executives and boards of directors do not necessarily seek out managers who are inclined to serve the long-term interests of the firm and its stakeholders. Performance evaluation is notorious for its short time horizon. Boards of directors increasingly represent the priorities of pension funds and other second-order investors rather than parties who identify with the firm and are concerned with its long-term health.

This environment calls for managers with allegiance to professional ide- als. Consider, by analogy, engineers who put up apartment buildings for investors who may not be concerned with structural safety 20 years down the road, long after they have left the scene. Or engineers who install public facilities for political administrations whose members will be in retirement homes when roads and sewers begin to fall apart. We benefit enormously from the professional integrity of engineers who do the job right regardless of transient incentives.

It was in fact the engineering field that provided the model for Frederic Taylor’s call for the professionalization of management at the turn of the present century. Taylor himself was an engineer, and he knew the benefits of professional certification that engineers had developed for themselves as their role grew to critical importance during the nineteenth century. Tay- lor’s motivation was admittedly political, as by his own account he wished to ground the authority of managers in their expertise. He felt that restive industrial workers would respect “scientific” managers as they had once respected master craftsmen in specific skills before the breakup of craft unions by such magnates as Andrew Carnegie. Taylorism’s “science” became obsessed with specializing and regimenting workers. But whatever its motivation, the movement eventually gave rise to management schools and accreditation agencies for them.

Taylor realized that while there was little resistance to the professionalization of engineers, the lack of a science of management was an obstacle to management professionalism. Business schools and MBA's partially overcome this obstacle. The need for a certain degree of professionalism, at least with respect to technical competence and its certification, has therefore been recognized. Yet an ideological relic of the eighteenth century, namely a faith in a self-regulated economy, continues to block the full professionalization of management because it obscures the special obligations of managers to maintain the long-term welfare of their firms, their employees, and the economic framework in which they operate.

4 The Special Obligations of Managers

It is impossible to formulate a code of professional ethics managers without some reasonably clear idea of the mission of the profession. The legal profession, for example, can spin its convoluted conflict-of-interest rules only because it knows what it is trying to achieve—fair representation for all parties. Medical ethics are beset with some thorny issues, such as when termination of pregnancy is appropriate, but there is a large area of agreement on what the point of the whole affair is.

No one should attempt to spell out the professional obligations of business managers without a similar understanding of their raison d'etre. A brief intimation of it was given above, and it might be elaborated under three headings.

- To generate wealth.
- To provide meaningful and gainful employment.
- To contribute to social order and stability.

Wealth Creation

To say that a business manager is obligated to generate wealth is by no stretch tautologous, if the generation of wealth is distinguished from its mere transfer. To make a profit is to transfer wealth to oneself. It is a further question whether wealth is generated. If, for example, one makes a handsome profit on real estate speculation, one can ask what is contributed to the commonweal by the transfer of money and land titles. If the land is held and released in such a way as to promote its rational development, then real estate deals can create wealth. On the other hand, irresponsible speculation can impede the proper development or preservation of land.

Note how the wealth-creating aspect of a business enterprise, if any, can be quite distinct from its profit-making aspect. It is an interesting exercise to examine, say, retail trade or stock brokerage from this point of view. The former makes a profit by marking up prices, but its services include the provision of product information, a rather expensive form of warehousing, and recreation for shoppers. The second makes a profit on commissions, but its services include “lubricating” the market by bringing buyers and sellers together and allowing prices to clear. The stock market itself provides the valuable service of raising capital, but one can question the market’s instability or its tendency for “churning,” i.e., the repeated buying and selling of the same issues.

None of this is meant to imply that a business manager should not make a profit. A firm cannot create wealth unless it exists, and it cannot exist unless it makes a profit. But the wealth generation test provides an interesting and sometimes uncomfortable assessment what a firm is doing. It also imposes obligations that may go beyond or contravene ordinary obligations, as one should expect from professional ethics. A farmer must consider the welfare of the family when he sells the family farm to housing developers. One would not expect him to worry about rational land use. But a real estate professional should consider the cumulative impact of her transactions on the community.

Employment

Most people in industrialized countries spend the bulk of their adult years and deplete a major fraction of their energy working outside the home. Their employment not only supplies their livelihood but structures their lives with meaningful activity. Because the existence and quality of employment is largely in the hands of managers, managerial decisions have a profound effect on the lives of others.

Here again the business manager incurs special obligations. An individual who occasionally hires someone to cut his grass is expected only to pay a fair wage. By contrast, the personnel-related decisions of a professional manager should take into account the economic and social health of the community, the productivity and educational level of the work force, and the opportunity for employees to assume autonomy and responsibility commensurate with their training and performance.

A good illustration of this principle is the universally admired German apprenticeship system. Under this system even a sales clerk might receive three years training in the workplace while completing school. This repre- sents an enormous investment on the part of the employer, an investment that is lost if the apprentice opts to work elsewhere when the training is completed. However, if managers as a group regard it as their professional obligation to train apprentices, then trained employees lost to other firms are replaced by employees trained by other firms. The resulting high level of competence in the workforce makes it possible for a high-wage economy to compete internationally.

Social Order and Stability

Business is the primary player in a system of mind-boggling complexity. This is the system that makes things work—that transports one to work, that puts food on grocery shelves, that provides electricity to household outlets, that polices the streets and resolves disputes, and so on with millions of products and services. Anyone who believes this system runs itself should spend some time in a part of the world in which things do not work. The system works only because private and public-sector managers on the whole have a strong sense of responsibility. They take on the burden of making sure that others work together and do their jobs in a responsible manner. To be sure they do it primarily because their firms or agencies would collapse otherwise. But it is evident in the experience of societies that do not work so well that firms and government agencies can endure despite poor performance. When things do work, it is because managers collectively adhere to professional standards even when immediate incentives to do so may be less than compelling.

A relatively minor way in which business contributes to social welfare is to take part in activities to which corporate citizenship is too often reduced. They include such philanthropic activities as support of the arts, contributions to charitable organizations, sponsorship of community-building activities, and so forth. These pro bono activities are commendable, but by far the greater responsibility of professional managers lies in carrying out the central mission of business, which must include above all the generation of wealth, but in addition the provision of meaningful and gainful employment and the support of an orderly society. A code of professional ethics in business should provide practical guidelines for how these goals can be pursued.

References

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[3] Smith, Adam, *The Theory of Moral Sentiments*, Liberty Classics (Indianapolis, 1982).

[4] Weber, Max, *The Protestant Ethic and the Spirit of Capitalism*, Allen and Unwin (London, 1930).