

## **Business Ethics**

*Norman Barry, Business Ethics, Macmillan Press, London, 1998*

*Reviewed by Bill Stacey*

**T**he emerging discipline of business ethics has largely developed as a critique of business norms, with practitioners in the field rising on the pulpit to preach transformation of commercial life in the name of principles that are currently found wanting. Like many calls for reformation, business ethics can seem alien to those whose day to day life in business seems neither immoral nor at odds with creating a better world.

Norman Barry's work *Business Ethics* builds a powerful case for an approach that is more closely founded on the actual practice of business as it has evolved and as understood through economics. He argues for an intrinsic business ethics that has developed within markets rather than imposed by external agents introducing alien concepts that undermine both efficiency and existing moral reserves.

Very few writers in the tradition of business ethics have argued, with Barry, for the close nexus between economics and ethics. Indeed, with most economists keen to ensure that their discipline is 'value free' there has been little room for constructive engagement with the philosopher or preacher. Barry argues that 'the business ethics school misunderstands the market' (p.9), but goes beyond this to make the case that 'micro' level ethical issues can only be understood with a practical understanding of the way that markets and businesses actually work.

Ethics must deal with the decisions that business people actually make and the consequences or moral standing of those decisions. These decisions can not be fully assessed without understanding the nature of commerce, the goals of commercial activity and the ethical rules that have evolved as constraints on business behaviour. Economics provides key insights to this exercise about efficiency, risk, incentive structures and transaction costs that have a direct impact on individual actions.

Barry's argument is that most accounts of business ethics ignore the specific type of ethical rules that are required to support the 'arms length' nature of most market relations between individuals. Market relationships are generally based on voluntary assumption of obligations between people who do not know or meet each other. Hence, 'the structure of business ethics must not be about the foundations of 'rightness', but about the role of rules as restraints on egoistic actions in basically anonymous market orders' (p.26). Business behaviour is not a single event prisoner's dilemma, but a repeated game in which voluntary cooperation and rules can and have emerged.

The historical emergence of such trading rules prior to the modern state, shows the power of commerce as a driver of ethical norms appropriate to business life. Barry later argues that one of the great costs of new statutory rules that adopt and enforce recent notions of business ethics, is that they undermine the basis of intrinsic rules that are more efficient. In the face of failure to change the enduring features of human behaviour, business ethics slips too easily into the rhetorically powerful, but in an anonymous market not very useful question of motivation. When market participants are not known to each other, the motive attributed to an action (eg greed, self interest, etc) means nothing. Breach of rules and actual harm caused by actions are the only ethically relevant issues.

From setting out a general theoretical framework, specific issues are reviewed in some detail. One of the basic issues is the foundation of the corporation and its ethical standing as a crucial part of modern economic order. The rise of the corporation does offer a challenge for theorists of ethics in business. The early great thinkers about economics, business and ethics such as David Hume and Adam Smith did not envisage the modern corporate form and saw the combinations of their time as likely to be inefficient in comparison to the entrepreneur or family business.

Barry sees the corporation as emerging through custom rather than legal artifice. The corporate form is a response by owners and managers to uncertainty and the structure of competitive markets. It 'must be understood primarily, but not exclusively, in economic terms' (p.63). Therefore, it has ethical foundations based on the individuals who have brought together the corporate body as owners or their agents. Recent legal innovations towards corporate responsibility for criminal rather than civil or tort liabilities are rejected by this account. It undermines individual responsibility and lacks 'convincing moral argument' (p.67).

Other examples examined in detail are corporate social responsibility, insider dealing, takeovers and the environment. Barry has interesting views on all of these subjects.

He points out that conventional stakeholder theories of social responsibility shift the balance of interests more strongly to management over shareholders, by providing more avenues to pursue the particular interests of managers under the claim of general community wide interests that are difficult to assess and monitor. The language of 'stakeholders' is not useful in determining the ethical rules by which people in business should operate. It is argued that the focus of those concerned with the moral standards of people within companies should be on universal norms of human behaviour rather than special additional responsibilities of corporations.

Laws about insider dealing, must recognise rights over information and the potential for harm to shareholders, but should carefully avoid restricting the flow of information in markets.

Whilst there are ethical constraints on the tactics of takeover activity, Barry sees the goals of such deal making as ethically benign.

Barry neatly applies economic reasoning to point out a number of obvious ironies that are rarely discussed in writing on business excellence. For example, that the more generous a company in provision of support to societal, rather than business ends, the more likely it is to be defending rents from a lack of competitive pressures. Should those interested in ethical behaviour really be upholding firms with not so natural monopoly rents as in some way virtuous?

Barry is a clear writer and thinker, who deserves a wider audience. His *Classical Liberalism and Libertarianism* remains one of the best overviews of these schools of thought. Like Hayek, he maintains a polished courtesy for those who reach different conclusions, whilst comprehensively cutting away at the foundations of their arguments. He builds on a balanced assessment of the literature to make a compelling case for its revision.

At under 200 pages, *Business Ethics* is readable and informative. Whilst firmly in the classical liberal tradition, it will provide insight to the economist or businessman who has traditionally been sceptical about academic studies of ethics. With straightforward explanations about the language of ethics, as a branch of philosophy, and well-packaged chapters on foundations and topical issues, the book is particularly well suited to courses in business schools.

A rich study of ethics can not be conducted in isolation from real insight about human behaviour. If economics does help to explain human action in business and markets, it will also help to provide the basis for examining the ethics of those actions. Barry's very useful work makes a strong contribution to bridging a gap between practical business, economics and ethics. It is also an interesting contribution to topical debates that cuts through a raft of interests and bad policy making to provide a richer picture of commerce that seems more believable and useful than other works on the same subjects.

*Bill Stacey works for a major Australian banking corporation and has completed academic studies in political philosophy and business.*