CLEANING UP

Companies expect Brownie points these days for being socially responsible. That may be enlightened self-interest, but it's not ethics

BY IVOR SHAPIRO

Blotchy video noise is briefly replaced by the company's familiar red, white, and blue logos, and then the film begins. The scene: the parking lot at an Imperial Oil plant. A plant supervisor is shaking hands with a contractor whose company has just landed a big Imperial job. As a token of gratitude, Imperial's man is offered a jacket embossed with the contractor's company name.

At this, a couple of knowing glances are passed among the sixteen watchers in a sixth-floor conference room at Imperial corporate headquarters in midtown Toronto. "What you've just seen," a man on screen tells them, "is a situation that calls for an ethical decision." The camera zooms in on the cover of a steel-grey booklet, bearing in large print a quotation from Imperial's chairman and CEO, Arden Haynes: "In all its actions, Imperial Oil is dedicated to the principle of ethical leadership." The booklet is the latest revision of Imperial's corporate ethics code and represents, a video narrator says, "a commitment to capture the high moral ground and stand on it."

Indeed the quest for high moral ground has become something of a preoccupation. "By far the most important attribute of our company," Haynes likes to say in his speeches, "is the ethical behaviour of Imperial and all its people." Another thing he likes to say is this: "Ethics, along with the environment, is *the* hot topic these days."

Boy, is it ever. Not just Imperial but the Royal Bank, Dofasco Inc., MacMillan Bloedel, Shell Canada, and hundreds of other leading North American firms have adopted formal codes of ethics. Required reading for Canadian executives is David Olive's 1987 book *Just Rewards: The Case for Ethical Reform in Business*, along with a 1988 tract called *The Power of Ethical Management* by Norman Vincent Peale and Kenneth Blanchard. Ethics courses are proliferating at business schools across the continent, and philosophers everywhere are cashing in by offering their services as corporate morality consultants.

Not that the ethics explosion exists only in business, of course: in these kinder-gentler days, it's everywhere. But nothing demonstrates the trendiness of ethics more dramatically than its currency in the corporate world. After all, shareholders do not pay corporate executives to serve humanity but to make a profit.

Which makes the business world the best place of all to ask the question: just how deep does the newly fashionable "ethics" go?

In the Imperial conference room, the sixteen video watchers – members of financial-reporting and systems-development staffs – sip coffee under the eye of Imperial's assistant comptroller, Mark Walsh. Now on screen is Arden Haynes himself, a bulky Jimmy Stewart in a dark suit. If a company does not operate with integrity, he warns his 15,200 employees nationwide, "the erosion of confidence . . . will threaten the company's existence."

This is a popular song in today's corporate world. You might call it: The Cost of Immorality. Corporate speech writers do not use the language of dilemmas and duties, rights and wrongs. They prefer the more familiar language of profit and loss, of corporate image and class-action suits. A CIBC vice president warns that firms without codes of conduct invite greater government regulation. A management consultant writes in *The Globe and Mail*: "The risks to the corporate treasury and its reputation are just too high to tolerate a haphazard approach to the ethical challenge."

The ethics explosion comes, after all, in the wake of two decades of scandals that have tarnished big corporate names: A.H. Robins and the Dalkon Shield; Union Carbide and the Bhopal gas leak; the Northland and Canadian Commercial bank failures; Morton Thiokol and the *Challenger* O-rings; Exxon Corp. and the Valdez spill.

Imperial's own ethics programme took shape against a background of public cynicism about oil companies. Both Imperial's fortunes and its reputation are tied to the world price of a barrel of crude oil. When that price goes up by one U.S. dollar, the company's annual after-tax profits go up by $60-million. The OPEC sheiks' oil embargo in the 1970s brought a tenfold rise in gasoline prices, record industry profits – and public rage. In 1979, Imperial's image hit bottom when its U.S. parent, Exxon Corp., unilaterally siphoned off 25,000 barrels of Venezuelan crude intended for Canada, and, just a few months later, *The Toronto Star* revealed that Imperial kept "secret" files on oil-industry critics. (The fairly innocuous files were quickly made available to the paper.)

Today, with memories of the gas famine nearly eclipsed by Haynes's campaign to "capture the high moral ground," Imperial's corporate-relations vice president Dick Michaelides hopes that motorists who drive down a street lined with gas stations will "choose Esso because something intangible there attracts them. Maybe they like to deal with a company they can trust."

But for modern corporations, an emphatic "ethics" policy is more than an elegant marketing strategy. It helps employees feel good about their company. It forestalls adverse publicity, pesky shareholder-meeting protests, consumer boycotts, and costly lawsuits.

To cover so many bases requires attention to an ever-growing range of issues. Case studies in a soon-to-be-released ethics textbook, *Good Management*, by The University of Western Ontario's Jeffrey Gandz and Concordia University's Frederick Bird, spotlight audits, lay-offs, drug testing, deceptive packaging, product safety, and employment equity.

The hottest issue of all is the environment. Self-styled "green" products fill supermarket shelves. Liquid-detergent refills don't come in bottles any more but in "Enviro-Paks" that contain "70% less plastic to discard." Big Mac guzzlers are assured that the trusty patty never comes from "cattle raised on rain forest land." The Imperial code instructs employees to "report immediately to their supervisor any known or suspected breach of the company's environmental standards."

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Anything else would be worse than unethical, of course. It would be bad for business.

When the fifteen-minute video ends, the slender bespectacled Walsh turns on an overhead projector to display a simple chart with the heading, "STAKEHOLDERS." Note this term – it has become one of the hottest corporate buzzwords. No longer should decisions be seen purely through the eyes of shareholders examining their next dividend cheque. Every business depends upon a larger number of people who thereby have a legitimate "stake" in its dealings.

The Imperial stakeholders listed on the wall screen are: "employees, customers, sales associates, the community, suppliers and contractors, competitors, shareholders." In that order. The code guarantees workplace safety for employees, superior products and truthful advertising for customers, environmental protection and charitable donations for the "wider community." Even competitors should be neither bad-mouthed nor spied upon.

But if "stakeholders" is a hot new entry in the business-ethics lexicon, another is even hotter: LONG-TERM. Much of the vast mass of words uttered on the subject comes down to one simple credo: in the short run, ethics can cost money, but in the long view, as Haynes puts it, "good ethics is *never* bad business."

When a University of Toronto study showed that "socially responsible" companies enjoyed average or above-average profits, it was reported in Imperial's inhouse ethics newsletter under the headline "Research Shows Operating Ethically Pays Off."

And that's why, as Walsh tells the sixth-floor gathering, "there are things we just don't do. If it's illegal or unethical, we just don't do it."

Everyone nods.

"Any questions so far?"

All the heads shake.

The traditional corporate culture – play with the team, cover your ass – has never particularly lent itself to ethical reflection. But the acquiescent atmosphere in the sixth-floor conference room wavers when Walsh moves on from stakeholders' rights in general to "Ethics in action: putting principles into practice." When he emphasizes financial staff's duty to record all transactions with candour, one book-keeper interrupts to ask about tax avoidance. "Maybe what we're doing is legal," she says, "but I think when it comes to taking advantage of tax loopholes, our ethics goes out the window." Walsh replies carefully that Imperial's claims are always well documented and compliant with the law's purpose.

Then, under the heading of shareholders' rights, a junior manager's question sparks a twenty-minute discussion that sits awkwardly on the edge of becoming an argument.

Last year, to reduce a massive acquisition debt after its takeover of Texaco Canada, Imperial issued $1-billion in new equity. As a blue-suited accountant now reminds Walsh, Exxon Corp. got seventy per cent of the issue to match its previous holdings, and the other thirty per cent was bought outright by the stock underwriters. Only one of every 1,000 new shares was reserved for Imperial's ordinary stockholders, many of whom were enraged at being deprived of a better shot at a quick profit – nine dollars a share, as it turned out, after just one month.

True, no-one could be certain the shares would do so well in a nervous market, and the debt-ridden company badly needed its billion dollars: by opting for the "bought deal" rather than a rights issue in which current shareholders would have first pickings, Imperial got its money fast and sure regardless of market response – and saved at least $45-million on brokers' commissions.

Walsh explains this, but some staff members still feel the deal was raw. "Exxon got a guarantee," says one. "Shouldn't minority shareholders have got the same opportunity?"

"The bottom line," Walsh replies after a pause, "is that you're right. The way I'd phrase it is that in retrospect there was a lack of sensitivity to what might happen to those shareholders. My hope would be that if we got into this situation again, the lessons will have been learned."

Some lessons have already been learned. Included in the 1990 revised code of ethics is a new clause committing the company to giving shareholders "reasonable time to make a measured decision and exercise their option when new shares are offered."

Yet when Arden Haynes later hears the 1989 stock issue described as a question of ethics, the sixty-three-year-old CEO raises his eyebrows in surprise. "At no time" has he seen this as an ethical matter: "It was a very straight-up business decision." A visitor mentions shareholders' rights, but Haynes shrugs. What does this have to do with "ethics"?

Everything. There is a fundamental dissonance here. In public, Haynes sticks to his good-ethics-is-never-bad-business line. But in the quiet of Imperial's twentieth-floor executive library he serenely concedes that some scruples cost his shareholders money. "There are certain partnerships and kinds of businesses that we have decided not to go into because we didn't like the nature of the business." Declining to name names, Haynes adds that the declined opportunities "could have been highly beneficial."

"You turned down long-term benefits?"

"Sure."

In such instances, presumably, shareholders lose out to unidentified other "stakeholders." Writers of speeches on ethics seem to assume that stakeholder interests coincide. But in reality, shareholders want higher profits, customers want lower prices, labour wants better wages. As for the community, the philosopher Michael Yeo has aptly said that "the question becomes whether what is good for General Motors is also and necessarily good for the nation."

After ninety minutes, Mark Walsh draws the ethics-awareness seminar to an end by asking his staff members to sign cards affirming that each has read the ethics code and will adhere to it. He urges them to approach one of the company's four ethics advisers on any future issue not resolved within their own department, and if necessary to take the matter to the chief executive's office. Then he flashes one last chart onto the wall screen:

AN ETHICS CHECKLIST

Is it legal?

Is it fair?

Can I defend it?

"If you can answer these three questions," Walsh explains, "you're probably doing all right." He reads the first two questions straight off the chart, but improvises on the third.

"How," he asks, "would it look on the front page of the *Star*?"

In *Just Rewards*, David Olive writes that, in offering companies "valuable new insights into the concerns of every group with which the company deals," a sound ethics programme is "just another important management tool, every bit as useful as cost-benefit analyses, new-product research, and marketing surveys."

Just another management tool. Maybe that's why ethics statements (including Imperial's revised code, which Olive himself had a hand in) typically incorporate numerous clauses that have little to do with ethics. The real problem with that supervisor's accepting a jacket from the contractor, for example, is simply that it's against the company's interests – the consideration could lead to the wrong contractor's getting a job in the future. Other clauses in the Imperial code protect the company's ownership of employees' inventions, products, and ideas, and place strictures on acts like insider-trading and price-fixing collusions, which are flat-out *illegal*, not merely unethical.

Contrary to the conventional wisdom that good morals mean good business and vice versa, it ain't necessarily so. Is there any chance that tobacco companies will ever close down because of ethical concerns about their product? Will advertising agencies commit themselves to telling the whole truth and nothing but? Say a company discovers it has been selling an unsafe product or maintaining a toxic workplace. Would it recklessly invite lawsuits by a prompt release of life-saving information?

Or look at Imperial's position on government proposals to reduce greenhouse-gas emissions. Haynes says there remains "much scientific uncertainty" about the causes and extent of global warming. Unilateral Canadian action to reduce carbon-dioxide emissions, he warns, could damage Canada's international competitiveness without making a substantial impact on the global problem. Instead, he wants more research into the scientific and economic consequences of anti-greenhouse measures, and offers Imperial's own "extensive research capabilities and facilities."

But can Canada's largest oil company do objective research on this matter? Could oil companies prove any more open than tobacco and asbestos producers to the possibility that lower sales of their products could be the ethically correct goal?

Ethics, after all, means more than having kind and gentle ways. When a mother chooses between her unplanned fetus's life and the needs of her overstrained family; when a doctor weighs a dying patient's right to survival against her right to dignity; when a journalist ponders whether or not to reveal intimate information that could wreck a political career – all these are ethical dilemmas. And what makes them ethical dilemmas (as opposed to pragmatic ones like choosing a second-hand car) is the presence of competing interests, duties, and values. In principle, they're ethical issues only when the mother's, doctor's, or journalist's own comfort and ambitions are not the chief considerations. To make an ethical decision, one must first be ready to put aside self-interest.

Likewise, if companies want Brownie points for being "ethical," it is not enough that they extend the time frame of their decision-making to make sure that they benefit themselves "in the long term," or that they avoid counterproductive fights with a variety of "stakeholders." Call all that prudence, call it expediency or enlightened self-interest. Call it a management tool. But ethics it's not.

This does not make the rise of "business ethics" a bad thing. There are many ambiguous situations where a habit of leaning towards the longer and broader view will frequently be better for everyone than a leaning towards immediate profit. But conversely the inherent ambiguity of *ethics* will often yield to the hard reality of the dollar. So while the "ethics" habit probably can't do much harm, it may also not do as much good as one might hope. And meanwhile, the very word is being castrated by overuse.

But lest this analysis seem ungenerous, let the last word belong to Arden Haynes, a kind and gentle man. Here is how he ended his April, 1990, address to shareholders:

"I read somewhere recently that maximizing shareholder value would come to be regarded as merely one of a number of legitimate objectives of the corporation of the future. I disagree entirely with that view. . . . When all is said and done, the name of the game is still adding shareholder value. But the game is being played differently now and the corporation that does not recognize this does so at its own peril."