The Centre for Enterprise, Markets and Ethics

Enterprise and Faith Series

Ethics in Global Business
Building Moral Capitalism

Andrei Rogobete
We are a think tank based in Oxford that seeks to promote an enterprise, market economy built on ethical foundations.

We undertake research on the interface of Christian theology, economics and business.

Our aim is to argue the case for an economy that generates wealth, employment, innovation and enterprise within a framework of calling, integrity, values and ethical behaviour, leading to the transformation of the business enterprise and contributing to the relief of poverty.

We publish a range of material, hold events and conferences, undertake research projects and speak and teach in the areas with which we are concerned.

CEME is an independent, registered charity relying entirely on donations for our work.

Our website is www.theceme.org.

Please contact the Director, Revd Dr Richard Turnbull, for further information at:

The Centre for Enterprise, Markets and Ethics
First Floor, 31 Beaumont Street,
Oxford OX1 2NP
ABOUT THE AUTHOR

Andrei Rogobete is a Research Fellow with The Centre for Enterprise, Markets and Ethics. His main areas of research include, among others, ethical business growth models, sustainable governance and the dynamics of globalisation.

Andrei previously served as a political consultant in Westminster. During this time, he worked on bespoke political campaigns for several high-profile politicians and members of the Cabinet.

Andrei is currently pursuing theological studies at the University of Oxford. He also holds an MSc in business from University College London (UCL) and a BA in political science from Royal Holloway, University of London.
Contents

Introduction

1. The Quaker example
   1.1 Where are we now? The market economy of the twenty-first century

2. Volkswagen emissions scandal: a story of trust and betrayal

3. Lessons for today
   3.1 Purpose is greater than profit
   3.2 Moral values must become an intrinsic part of the business
   3.3 Companies that fail to implement an ethical culture will suffer

Conclusions
INTRODUCTION
On the morning of 15 September 2008, Lehman Brothers filed for Chapter 11 Bankruptcy protection. The fourth-largest US investment bank cited over $639 billion in losses, making it the largest bankruptcy in US history. The consequential economic recession saw $15 trillion wiped off the global financial markets, countless job losses and business foreclosures. Western capitalism would never be the same again.

Yet at heart the financial crisis was not just a crisis of finance but of morality – reckless behaviour was driven by greed and the pursuit of ever faster and larger profits. This was well illustrated in the gross and artificial overvaluation of the US subprime mortgage market. Hidden beneath packages of securitised mortgages and excessive leverage, it made the perfect formula for global economic collapse. Collectively, the major banks have paid over $300 billion in legal fees since 2008.

Against this backdrop there has been a widespread loss of public confidence in big business – particularly in major corporations and the bulge bracket banks. This publication is therefore an explorative study on how global businesses can redefine and rebuild themselves through a genuine commitment to several core principles, such as:

- Establishing a purpose that goes beyond profit;
- Adopting a holistic approach to business management;
• Implementing good governance and transparency;
• Truly upholding an ethical code of conduct built on a foundation of moral values.

Despite all the challenges faced, the free market economy remains the most effective form of wealth creation: more people have been lifted out of poverty in the last century than during any other time in recorded history. The UN Millennium Development Goals website reports that extreme rates of poverty have been cut by more than half since 1990. A market economy gives people hope, purpose and a genuine sense of achievement – but clearly problems remain, namely greed and misconduct.

Sadly, greed and misconduct are often shown in companies’ behaviour. This poses an interesting question: ‘Is human greed manifest institutionally in companies’ behaviour or is it just the behaviour of individuals within companies?’ In its very essence, a company is no more than the people it comprises. Although in purely legal terms a company may have a different status from a private individual, this should not deter us from recognising the consequences of unethical behaviour from within. It is no surprise, then, that every month there is a different scandal in the news, whether it’s a bank accused of fraudulent activity or a carmaker facing charges of deceit. A twisting of morality and a suppression of conscience are at the core of these issues.

What would a solution to the problem of greed look like? Should government impose tighter rules and regulations on private-sector activity? Should the penalties be so high that no company would risk deceiving its stakeholders, both internal and external? Would a highly regulated market economy protect consumers without stifling innovation and growth? These are approaches that have been tried and tested, and have led to systematic government failures within the
market economy time and time again. In the period from May 2012, France’s tax policy under President Hollande is a good example of how excessive taxation stagnated the economy and grew unemployment to over 10 per cent. In 2014, after only two years, Monsieur Hollande was forced to withdraw some of his tax policies, particularly the 75 per cent ‘supertax’.5 Loopholes will always be found, and while some regulation against excessive risk is certainly welcome, government simply cannot promote a growing economy and guarantee absolute fairness and safety within the marketplace in equal measure. The real change must come from within companies themselves. They must recognise that by paying lip service to issues of ethics and morality, they do so at their own peril. David Jones, a leading business analyst, writes:

Before the financial meltdown, the fastest-growing trend in business was the move towards social responsibility, and the economic crisis has only served to accelerate this. The world saw all too clearly that the ruthless pursuit of profit at all costs almost led to the total collapse of the global financial economic system. Doing well and doing good are no longer seen to be mutually exclusive.6

The ruthless pursuit of short-term profitability comes not only at the cost of the environment or wider society but also at the cost of the long-term stability and financial growth of the company itself. Companies with the scope and reach must take a holistic approach to doing business if they are to succeed in the ‘big data’, social-media-driven environment in which twenty-first-century capitalism is currently operating – and not least one in which employees increasingly demand a responsible employer.

The future of free enterprise will belong to companies that adopt such a holistic management approach to conducting their business –