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CORPORATE ETHICS AND VALUES:
GUIDING BUSINESS OUT OF THE MAELSTROM

Jane Ross, Jack Ross and Andrew Creed

ABSTRACT

**Purpose** – To integrate agency and stakeholder theories with the Jacobs Value Distinction (JVD) thus presenting a micro and macro reconsideration of the JVD for a finer grained perception of the values underpinning corporate and global governance initiatives.

**Design/methodology/approach** – By extrapolating the JVD – commercial and guardian – this chapter examines the roots of moral malaise in the modern global firm. Examples and a theoretical rationale are given for identifying why and how ethical – moral problems continue to occur.

**Findings** – A metaphorical maelstrom is discernible in the global business environment and more turmoil, especially in balancing business values, is emerging for the managers of today’s corporations. Application of the JVD predicts that under certain conditions the hybrid nature of the firm causes managers and shareholders to engage in morally risky behaviour. In further exploring the value basis of the 10 principles of the United Nations (UN) Global Compact, it is found that similar values conflict, Principles and Strategies to Balance Ethical, Social and Environmental Concerns with Corporate Requirements which intensifies the need for international business managers to beware the moral risks.

**Research implications** – This viewpoint draws upon sound theoretical analysis and future studies should collate case analysis and practitioner interview data to further consolidate the findings. The viewpoint gives managers a useful tool for identifying conflicts of values underlying decisions and forms the basis for continuous improvement in the context of operational and strategic actions in international business.

**Originality/value of chapter** – The integration of the JVD with agency and stakeholder theories is new and critique of the 10 principles of the UN Global Compact via the JVD has not happened previously.

INTRODUCTION: FINDING FORM IN A STORM

*Our first slide into the abyss itself, from the belt of foam above, had carried us to a great distance down the slope; but our further descent was by no means proportionate. Round and round we swept – not with any uniform movement – but in dizzying swings and jerks, that sent us sometimes only a few hundred yards – sometimes nearly the complete circuit of the whirl. Our progress downward, at each revolution, was slow, but very perceptible. (Poe, 1841, A Descent into the Maelstrom)*

The tale by Edgar Allen Poe of a tiny fishing boat caught in a descent into an ocean-borne maelstrom is an archetypal description of change and the options we face when trying to manage in the midst of structured turmoil. We use the term structured turmoil with intent because there exists today in commerce a sense of pattern and order, despite the enormous changes engulfing the world. When we awake each day, there are still organisations to go to work in, resources to be managed, and objectives to be achieved. However, the maelstrom is
also there. The global financial crisis (GFC) is only one element of a slide down the slope from the belt of foam above (Wade, 2011).

The question remains about how much deeper the changes may run, and what managers must do in response (Peters, Pierre, & Randma-Liiv, 2011). Poe (1841) offers two alternatives: One is to cling to established structures and procedures in the hope we can survive the storm; in Poe’s tale, the person who clings to the boat stays alive on the craft right up until the final suck into the whirlpool. The other option is to jump into another structure or process and try to creatively change one’s approach in the midst of the challenge (Creed, 2009); in Poe’s tale, the person who leaps from the boat and attaches to other debris in the middle of the maelstrom is ultimately spat out of the cyclonic mess to become the survivor who can tell the story.

Referring to this analogy, we contend with others today (Benedict XVI, 2009; Gonin, Palazzo, & Hoffrage, 2012; Rasche & Gilbert, 2012) that there is a pressing need for new and pragmatic approaches for assessing and responding to organisational situations in global trade in ways that better reflect ethical realities and help to distinguish between real and ideal values that underpin decisions and actions. While the ramifications of the GFC are working themselves out and may yet generate more tumultuous issues to confront, our related concern is now with the value perceptions of global business leaders and their practices and decisions. This is the field in which the maelstrom is yet to be fully confronted. Benedict XVI (2009) calls for a new understanding of the connections between economics and human values (Grassl & Habisch, 2011). As Porter and Kramer (2011, p. 64) exhort, commercial organisations especially, ‘continue to view value creation narrowly, optimising short-term financial performance in a bubble while missing the most important customer needs and ignoring the broader influences that determine the longer-term success’. Financial crises, leadership quandaries, strategic milieux and industrial disputes are prevalent indicators of the kinds of problem to which Porter and Kramer (2011) allude. But, there is a potential moral trap attached to their solution (Scherer & Palazzo, 2011). Ethical dilemmas occurring in firms often stem from a lack of clarity about the organisation, purposes and functions of the firm (Connell, 2008). Given the exposure that managers and shareholders alike have to various organisational forms, the dilemmas are not surprising.

Business is fast paced; much is at stake (Kumar & Dash, 2011; Liu & Pearson, 2010). Governments come and go; and yet, the need has been and is still apparent for a solid touchstone by which to temper global transactions; a set of principles or values, some kind of general human reflection against which stakeholders can be measured and held to account. There are calls from the past and the present for renewed focus on universal moral principles in global transactions, from the civil rights enshrined in the US Constitution, to the Universal Declaration of Rights (of People) (Wells, 1940), the Global Sullivan Principles (Leon H. Sullivan Foundation, 2012), and the 10 principles of the UN Global Compact (United Nations, 2012). In the maelstrom of global business, some areas available to managers for rethinking their approach to values are in the fields of agency and stakeholder theories, which can contribute to our understanding of why ethical dilemmas and problems occur in firms. This paper explores the key elements of stakeholder and agency theories and then integrates a critical view of the UN Global Compact as a significant global governance initiative through the Jacobs Value Distinction (JVD) (Jacobs, 1992).

It is the reorientation of one’s values that represents the leap from the boat as it circles inexorably down the slope of the whirlpool. It is our aim to highlight the basis of key values that can have pragmatic effect for global business managers, as well as regulators and trade negotiators, in consideration of the best way to survive the storm that is already drawing us all towards its core.
INTERNATIONAL CORPORATE SOCIAL RESPONSIBILITY

There are persistent and increasing calls for international business to embrace corporate social (CSR) initiatives (Brammer, Jackson, & Matten, 2012; Voegtlin, Patzer, & Scherer, 2012). There is little doubt that appropriate concern must be given for the interests of all stakeholders in the corporate decision-making process. Elevating the interests of others is the essence of CSR; however, this sits in juxtaposition with self-interest in decision-making, which is not uncommon in the corporate, commercial world (Zutshi, Creed, Sohal, & Wood, 2012), often generating dilemmas for managers. By exploring the underlying values of the broad ideological positions, as Jacobs (1992) has initiated, we can anticipate the tensions, the points of convergence, and the best practice suggestions for improved outcomes in the international business environment. The first consideration is clarification of relational factors and the concept of agency.

AGENCY THEORY AND THE RELATIONAL TRAITS OF CHARACTER

Agency theory involves the recognition of different roles and relational exchanges in the firm, namely principal and agent. By separating individuals (and organisational entities) into the roles of either principal or agent, a more objective view of rights and obligations emerges that can act as a foundation for improved understanding of ethical issues in organisational situations. Recognising the relevance that thinkers such as Hume and Kant have for the agency concept in human affairs, Purviance (1997, p. 209) concludes that ‘We really have a character that is the cause of actions and the subject of moral evaluation’. This feature of agency theory – to step apart from the disparate facts and take a relational view of consistent moral assessments despite the diversity of perceptions and opinions – promises some helpful insights.

In the modern context, agency theory is applied to study conflicts of interest among people having different interests in assets they hold in common (Bakar & Ameer, 2011; Mainardes, Alves, & Raposo, 2011). Conflicts can involve shareholders and managers of companies, shareholders and investors. Agency theory attempts to explain why companies often make acquisitions that are bad for the shareholders and involve capital structure matters. Although agency theory is rarely directly related to investment decisions on the part of shareholders, it is used to model important aspects of capital market function. Importantly, a grasp of agency theory makes a better understanding of investment markets possible (Dow, 2011; García-Meca & Sanchez-Ballesta, 2011).

Although agency theory is not without its shortcomings (Pirson & Turnbull, 2011), it has long been argued that the interests of management and shareholders must be aligned to reduce the moral hazards faced by shareholders. Identified by Adam Smith, the agency problem is longstanding. He warned that the directors of joint-stock companies, being the managers of other people’s money rather than their own, cannot be expected to watch over it with the same vigilance with which partners in a private company watch over their own interests (Jensen, 1994):

"Like the stewards of a rich man, they are apt to consider attention to small matters as not for their master’s honour, and very easily give themselves a dispensation from having it. Negligence and profusion, therefore, must always prevail, more or less, in the management of the affairs of such a company. (Smith, 1994, pp. 699–700)"
The possibility of diverging interests between owners and professional managers is a primary problem of modern corporations (Gregg, 2001; Keown, 2002). While the stock-option evolved as a mechanism to align the interests of both entities it can lead senior management to risk aversion and unpreparedness for innovation. In this respect, the law of unintended consequences is always at work (O’Regan, 2011). Rather than focusing on CEOs growing long-term value for their companies, stock-options tend to seduce many managers into ‘short-term, one-shot, price-pumping schemes such as share buy-backs, spin-offs, and mega mergers’ (Hamel, 2000, p. 45). In too many cases, executives do not manage in the long-term best interests of their shareholders, but rather in their own best interests (Zutshi et al., 2012). Agency theory sees the problem of the firm primarily in terms of having the proper incentives in place to overcome the agency problem. It concludes that this problem can be controlled by incentives that counter balance the self-interests of management and shareholders. Shareholder demand for immediate maximisation creates an environment which makes stakeholder theory attractive (Zolezzi & Bonvie, 2004).

Stakeholder theory helps reveal what is wrong with the firm in terms of its monomania about maximising shareholder value, suggesting instead that the task of the firm is primarily to maximise stakeholder value (Freeman, 1984; Stieb, 2009; Turnbull, 1997). The firm gets back on track once it focuses on long-term value maximisation. Stakeholder values could have a devastating effect on the viability of the firm and the expectation that markets, which are driven by the value of profit maximisation, will limit the damage that can be done by managers who adopt stakeholder theory (Jensen, 2001). Nonetheless there is something deeper than self-interest, and rooted in the evolution of the human psyche, that attracts many managers to stakeholder theory (Debeljak, Krkac, & Banks, 2011; Dow, 2011; Jensen, 2001), leaving them with an unattractive dilemma. It was the incentive approach (stock options) used by agency theory that contributed to the downfall of Enron and led to its management to being accused of gross ethical blindness. In Jensen’s view (2001), the greater moral awareness implicit in stakeholder theory may be destructive of commerce and the economy (Jensen, 2001).

In hindsight, Enron’s management, for example, was trapped by forces beyond its control (Backhaus, 2003; Venkatasubramanian, 2011). It appears that the primary control mechanisms advocated by agency theory (stock options and debt-discipline) broke down. Cash was freely spent by certain members of Enron management on things that were discordant with stakeholder theory; such as, investment in human capital and conspicuous large contributions to charity and the community. Enron’s dramatic rise to its position as a major charitable contributor in the Houston area appears to have been possible because agency-theory controls were no longer effective, having been neutralised by the then allowable and generally accepted extensions to accounting practices (Arnold & de Lange, 2004).

THE TOUCHSTONE OF THE JACOBS VALUE DISTINCTION

Jane Jacobs, economist and urban theorist, observes the decline of honesty in society (Jacobs, 1992) and recommends a framework by which to arrest the decline and improve design, planning and decision outcomes. She examines macro scale issues which she describes as the moral foundations of commerce and politics from an interdisciplinary perspective that has been helpful in a range of fields (Davidoff, 2011; Earl & Potts, 2011; Goldbard, 2011), including politics, business and economics (Eusepi & Wagner, 2011; Runst & Wagner, 2011). On a global scale, she draws a distinction between two forms of market- and non-market-oriented economic activity. She identifies the market and its price mechanism as a commercial syndrome, and the government regulatory authority as a guardian syndrome, the features of which are provided in Table 1.
The values distinction by Jacobs (1992) can serve as a touchstone for understanding the mechanism of the maelstrom of global business. The values derive from a dual spiral of fundamental tensions between (a) ethical blindness which, apparently, is needed for economic activity and (b) ethical awareness which can be detrimental to economic activities. The root of ethical blindness is in profit making as a self-interested activity that draws money into itself. Pure commerce is ‘blindness’ to the needs of anyone or anything other than the self or the business. It is the core of economic activity and exemplified in the capitalistic ideal. Ethical awareness is the opposite of blindness and involves caring or altruism as other-centred emanation with a net result of giving money away. It costs to be aware of others, to care and to be socially responsible. This obviously inhibits to some extent the commercial intentions required to maximise profits.

The pervasive tension between these two opposing forces is illustrated in Fig. 1 as a primer for cyclonic motion in the global business environment. Commercialism focuses on money coming into an organisation. The priming mechanism emerges from the extent to which care emanating from an organisation determines its perceived value and establishes a price that customers are prepared to pay. But, the cost to the organisation must be controlled in ways that mitigate its economic destruction.
The dilemma of the commercial situation is that service ordinarily involves care and is fundamental to what people are prepared to pay. An ethic of care (customer service) is ideally one of the motivations for producing products in the first place. If a product truly helps someone else, this is a driver of the commercial mechanism and people will come to buy the product that is on offer. To produce a good – or a service – is a costly activity. Time, resources and energy go into production and that is why the accounting and finance disciplines are so important in commercial ventures. Costs have to be tracked and controlled so that profit can be maximised. At some point in the transaction the desire to serve has to transform into a desire to take payment from people: To keep giving without receiving payment is not sustainable, but rather a kind of martyrdom. The tipping point between giving and receiving is in relatively constant flux. If the balance gets tipped more one way than the other and gets stuck there, situations will soon emerge that indicate the organisation is acting in one mode when it should be responding in the other.

Now, recalling the agency problem identified earlier, that directors of joint-stock companies, being the managers of other people’s money rather than their own, cannot be expected to watch over it with the same vigilance with which partners in a private company watch over their own interests (Jensen, 1994). This is essentially linked with the delicate balance between self-interest (Brandt, 1972; Friedman, 1962) and selflessness (Hegel, 1977; Peperzak & Le’vinas, 1993), which is most complex in commercial publicly funded organisations. Situations needing an ethic of care (guardian) do not respond appropriately when an ethic of profit seeking (commercial) is applied by managers, and vice versa. Table 1 is an extrapolation of Jacobs’ value distinctions (Jacobs, 1992) which includes our extension to Jacobs’ work by updating it to encompass further CS situational factors pertinent to global business. Combined, this framework serves as a guide for managers grappling with the ethical realities of decision-making in a globalised environment. There are times when one value set must dominate over the other, and there are times when the balance shifts and it requires very adept managers, indeed, to negotiate the resultant cascading effects. Jacobs’ reference to the polarised sets as moral syndromes (of which managers must be careful) can serve as a useful framework for informing the process of managerial decision-making.

In identifying each value set as a syndrome, there is a connotation of becoming entrenched in one end of the continuum and becoming unhealthy or even toxic in one’s habits which lends support to the views of Schein (2011) and Leavitt (2007) who respectively identify the poor leadership and general lack of vitality and morality that can infest organisations. Recall that the descent into the maelstrom offers two options: clinging to the boat or leaping off into the whirlpool (Poe, 1841). Clinging to the boat as it is dragged down can represent the manager stuck in a syndrome when the situation calls for change. Leaping into the whirlpool represents
the action of a manager who knows the precise moment when the situation calls for change. The ability to live and practice one of the value sets (identified by colour differential) in Table 1 unambiguously and appropriately, and to embrace the other value set in a timely manner, produces the kind of clarity that is good for moral approbation and for managers. Jacobs points to the mutual reinforcement extant within each set or cluster of values; a syndrome being in this context a distinctive, or characteristic, pattern of behaviour. This makes Jacobs a moral realist in a similar vein as Hume and Kant (Purviance, 1997). She is effectively identifying traits of character (as pre-emptors of moral action) that can be universally considered in a variety of times and spaces.

Jacobs (1992) emphasises that each of the two syndromes, commercial and guardian, can be judged only internally by the values clustered within the respective pattern of behaviour. Despite the ongoing exchange of rhetorical barbs between factions, neither syndrome can successfully be used to judge the other. Referring to Enron, it can be argued that the real ethical dilemma emerging during the fall of the company was between forms of ethical awareness. On the one hand, there is a form of ethical awareness, some of which is incorporated in agency theory that is necessary for market oriented economic activity. On the other hand, and incorporated in stakeholder theory, there is a form of ethical awareness which is necessary for economic activity but not market oriented. This form of ethical awareness must be blind to enhancing values which are irrelevant or destructive, but are fundamental to market-oriented economic activity. This dilemma can be expressed in positive terms as a choice between two forms of ethical awareness; or negatively, as a choice between two forms of ethical blindness. Jacobs (1992) concludes that the pervasive decline in honesty is primarily due to society having macro institutions or activities that function as hybrids of the two distinct but contradictory sets of values or moral syndromes. She warns that any hybridisation of values between the two contradictory moral syndromes operating in the same activities creates moral ‘monsters’. Although Jacobs generally restricts her discussion to macro-scale activities (e.g. organised crime, Nazi death camps, Soviet command economy, and the like), she does carry her warning down to the level of microeconomics in a few instances (Jacobs, 1992) that illustrate the evils that can occur when moral syndromes are mixed unwittingly. She refers to a number of cases such as the New York Transit Police corruption scandal that manifested in a plague of false arrests, corrupt practices within the defence industry, the junk-bond scandal, and the savings and loan crisis and eventual collapse (Jacobs, 1992). She concludes that even at the micro level a moral hybrid is a moral monster, whether it is in a government-run commercial firm, a firm contracting with government or in any other application where the price mechanism functions within an area of governance.

The two sets of moral syndromes (clusters of values or clusters of motivational features) constitute the JVD. The extrapolations make it relevant for the advocates of business ethics to distinguish between two types of ethics: (a) generic morality which accounts for the basic rules of society and business and is followed on a daily basis by business people without publicity; and (b) supererogatory ethics of self-sacrifice which are imperfectly followed, and if followed, then only by private business owners (Barry, 2000a). In referring to the JVD, we argue that the supererogatory ethics of self-sacrifice frequently combine with the generic morality that is commonly part of managerial authority. This is the source of Jacobs (1992) warning about moral hazards. When guardian values overlap with commercial values then supererogatory mixes with generic and one’s moral grounding is at risk of falling away. The JVD is not intended to provide an ultimate or exhaustive inventory of values or motivational features. It is therefore a pure distinction which rarely manifests itself in a pure form, except perhaps as a theoretical abstraction.

While there are still some pre-market cultures, the firm is now transcendent and has become global (Chase-Dunn & Lawrence, 2011). Likewise, the complexity of the supply chain
and values within it has increased. It could nonetheless be argued that many of today’s corporate entities attempt to operate with only one moral code having both commercial and guardian virtues within it. To do this without consciousness of the fact is dangerously close to the edge of the moral maelstrom.

It is therefore possible (and advisable) to assess the core values promoted by influential stakeholder organisations and individuals using the JVD as a touchstone. By way of demonstration, in Table 2, we analyse the UN Global Compact as an example of a strategic policy initiative that encourages global businesses to align their operations and strategies with 10 universal principles in the areas of human rights, labour, environment and anticorruption. There are many possible subjects of such analysis but the UN Global Compact represents a business-focused initiative with some of the broadest global support (United Nations, 2012). We draw attention to the overlapping areas of guardian and commercial values that indicate practical management issues in implementing principles on a global scale. Each principle is classified as guardian or commercial and a rationale is provided to link back to the features extrapolated in Table 1.

<table>
<thead>
<tr>
<th>UN Global Compact Principles</th>
<th>Commercial (C) or Guardian (G)</th>
<th>Rationale</th>
</tr>
</thead>
<tbody>
<tr>
<td>Businesses should support and respect the protection of internationally proclaimed human rights</td>
<td>G</td>
<td>Taking the locus off the business towards others is guardian</td>
</tr>
<tr>
<td>Make sure that they are not complicit in human rights abuses</td>
<td>C</td>
<td>Individualism ahead of complicity is commercial</td>
</tr>
<tr>
<td>Businesses should uphold the freedom of association and the effective recognition of the right to collective bargaining</td>
<td>C</td>
<td>Freedom of decision-making in collaboration and bargaining is a commercial mindset</td>
</tr>
<tr>
<td>The elimination of all forms of forced and compulsory labour</td>
<td>C</td>
<td>Freedom is commercial</td>
</tr>
<tr>
<td>The effective abolition of child labour</td>
<td>C</td>
<td>Freedom is commercial</td>
</tr>
<tr>
<td>The elimination of discrimination in respect of employment and occupation</td>
<td>C</td>
<td>Equity is driven by commercial values</td>
</tr>
<tr>
<td>Businesses should support a precautionary approach to environmental challenges</td>
<td>C</td>
<td>Prioritising business survival is a commercial approach</td>
</tr>
<tr>
<td>Undertake initiatives to promote greater environmental responsibility</td>
<td>G</td>
<td>If this is about protection, or status quo of resources, then it is guardian</td>
</tr>
<tr>
<td>Encourage the development and diffusion of environmentally friendly technologies</td>
<td>C</td>
<td>More about innovation and capitalisation of commercial opportunity</td>
</tr>
<tr>
<td>Businesses should work against corruption in all its forms, including extortion and bribery</td>
<td>C</td>
<td>Fairness and playing by the rules is a commercial mindset</td>
</tr>
</tbody>
</table>

Guardian values make up 20% and commercial values make up 80% of the UN Global Compact which prompts the following question: Can lists of principles underpinned by mixed sets of values succeed in the global context? Immature and unaware blending of the value sets can make satisfactory moral outcomes difficult to discern. It is by understanding the delicate balance between commercial and guardian and knowing when a situation calls for one or other
of the mindsets to be deployed that moral problems can best be handled. There is no particular need to favour promotion of sets of principles that are predominantly either C or G. There still needs to be an appropriate guardian or commercial approach reserved for situations in which either one is called for. There is nothing inherently right or wrong about the UN Global Compact principles on the basis on this analysis. Managers simply need to be cognisant of the JVD along with the nature of the decisions required in the current situation to ensure a less morally risky implementation. While the intentions of universal principles are noble and worthwhile, the energy of thought and reflection required by all involved in implementing them is significant. The challenge for policy makers and global business managers to discern and apply the differences is evident.

To extend the analysis, many cases can be examined for a deeper understanding of the moral scaffolding supplied by the JVD. For example, widespread outrage (Comer & Vega, 2011) expressed about Enron’s failure to disclose the reality of their finances was expressed differently from the reactions to the government-based monstrosities of the Bush/Blair assertions about Iraq and its alleged weapons of mass destruction (Theakston & Gill, 2011). In the recent case of Julian Assange and Wikileaks, the value distinctions are further overlapped. There is obviously a perceived difference between government-based fabrications such as the Bush/Blair stories and the private commercial accounting fabrications of Enron or the activities responsible for its economic demise in 2008, and the Wikileaks of 2010–2011 (Klimburg, 2011). In these instances, as in most business situations, there are power games being played which means the moral implications must be considered. The puzzle involving different reactions in these examples stems from the fact that the same moral agents may be called on differently, depending on their role in a specific situation. To illustrate, people who enter into insurance contracts can be called on to defend their country during a war. In the JVD it is the context of the action which determines which moral parameters apply: ‘I cannot lie to an insurer about what happened at my property; but if I am a soldier, I can be ordered to wear camouflage on the battlefield to deceive the enemy’. Neither obligation is supererogatory within its proper context. This potential slippery slope is the basis for the hard distinction drawn by Jacobs (1992).

From the perspective of the JVD, both value sets are relevant to ways of making a living. Accordingly, the right-wing cry for government fiscal responsibility is as senseless as the left-wing cry for corporate social responsibility. The person who acts most charitably is the monopolist. It is thus ironic that corporate virtue is possible only in situations that would fail by conventional market ethics (Barry, 1991, 2000b). These ideological positions amount to judging the respective activity by values which contradict the activity. Following Jacobs’ reasoning, the value distinction of both ideological critiques misconstrues the limits of their respective bases good.

Nonetheless, we find many hybrid moral forms, such as contemporary governments that do in fact try to be fiscally responsible. Similarly there are also many corporations attempting to be socially responsible. Once an organisation breaches its syndrome, and the breach becomes institutionalised, the resulting conversion of normal virtues into vices wins cooperation among management and workers. ‘Now their work experience is blurring their moral understanding rather than clarifying it’ (Jacobs, 1992, p. 199). The existence of such common and apparently valued contemporary hybrids is problematic. The JVD begs the question: how can activities having contradictory elements within them be judged and assessed? And it raises a red flag cautioning the presence of a potential moral problem with its own moral hazards.

So, when is an obligation supererogatory? When would it be inappropriate to impose obligation as a duty? Barry (2000a, p. 15) claims that for the firm the ethics of self-sacrifice are always supererogatory: ‘It is perfectly acceptable for privately owned companies to engage
in virtuous activity. It is the owner’s money which is at stake and he or she is entitled to do whatever they like with it. But in a public company, shareholders’ money is not available as a ‘‘costless’’ resource for the moralist’. What Barry apparently forgets or ignores is that for the employees and management of the firm, the ethics of self-sacrifice are generic. As Fig. 1 indicates, care (altruism) flows out of individuals as naturally as it can from an entire enterprise composed of collections of individuals.

Jacobs stresses that dispensing largess is a guardian and not a commercial value. If a firm were dispensing largess beyond obvious economic benefits such as reduced taxes, it would indicate a potential increase in moral hazard. As Barry (2000a, p. 14) points out, the ‘‘pressure of competition in the capital market should in the long run eliminate costly ethics’’.

MORAL HYBRIDISATION

What happens if the organisation context is one of a hybridisation requiring both guardian and commercial syndromes where both syndromes are treated as generic and neither can be supererogatory? As our theory asserts, hybridisation is a potential moral problem because each element of a value cluster is by itself a moral justification for appropriate action within the sphere covered by the respective syndrome and value set.

Theory can provide indicators to answer why something was done or why something was not done. It can also provide a base for assessing situations and can function as a moral criticism if the value is flaunted. It is morally justifiable to downsize a management firm by pointing to size of debt load and lack of sales. The value determines the notion: Be thrifty, be efficient. At the same time, a moral critique can be levelled against a firm that does not invest for productive purposes or fails to be honest with shareholders.

Considering that a key value of commerce and the commercial syndrome is to shun force, we recall Voltaire’s (1734) observation that ‘‘Before the temple of Mammon, every enthusiasm that might inflame the passions dissolves like perfuming clouds of incense into benign indifference’’. It would therefore be a corruption of commercial values to negotiate a business contract with a pistol or other threat of force. In this sense, the moral implications of external interventions in the internal disputes of oil-rich countries such as Libya are highly problematic. The perception of such difficulties may, in part, be at the root of Russia – China abstinence from the UN vote concerning the imposition of a no-fly zone over Libya in March 2011. Similarly, a business opportunity in a distant country which requires bribing government officials must be rejected by conscientious business people for many reasons, including that doing so would be to deal with a corrupt guardian culture and violate the chief guardian value to shun trade. Dealings with corrupt officials in the guardian category, who can be bought to exert influence or force, might induce a tolerance for corruption into what would otherwise be a commendable commercial enterprise. It would be like doing business with the mafia, and then discovering that the business was being used as a cover for prostitution, drug trafficking, human trafficking or money laundering.

Application of the JVD is a useful analytic framework because it enables us to see what might otherwise be missed. The two syndromes summarise centuries of observations on the perceived differences between market virtues and heroic virtues. Using the value distinction provides a rationale for how the approach advocated here goes beyond the narrow focus of agency theory and can be applied to commercial firms.
RETURNING TO THE ETHICAL – MORAL DILEMMA OF THE INTERNATIONAL FIRM

Returning to the agency problem identified by Smith (1994), the JVD emphasises reasons for why firms misbehave. It can be due to managers or directors dismissing themselves from the need for attentive vigilance or to a laudable but misguided sense of ethical activism. This places a critical light on the recent suggestions by Porter and Kramer (2011, p. 64) that, in order to prosper in the longer term, global commercial organisations should be ‘creating economic value in a way that also creates value for society’. The potential moral descent is now much clearer with the JVD in mind.

In Jacobs’ terms, the potential for wrong doing of the firm stems from Coase (1937) and his view of the firm as a managerial authority which is able to compete in the market place. It is the commercial and guardian authority structure in combination with the agency problem that forces hybridisation of the commercial and guardian moral syndromes in the firm.

There is a commercial relation expressed in terms of fiduciary duty between the management and the shareholders such that management is under an obligation to return profit to shareholders. Yet at the same time, management has authority over the firms’ employees who are expected to be loyal to the firm. Be loyal is a guardian value, while respect contracts and fiduciary relations is a commercial value.

There is no corresponding duty of loyalty or fiduciary relationship to the firm placed on the shareholder. As a result of its detachment from the assets, management is in the anomalous and morally hazardous position of being in two relationships at the same time: (a) a commercial relationship with shareholders and (b) a guardian relationship with employees. The obligation of managerial authority within the firm means that neither the commercial nor guardian syndrome can be made supererogatory without increasing the potential for wrong doing.

In Coasean theory, the firm is seen as becoming dysfunctional when its managerial authority no longer has an internal cost advantage against the price mechanism of the external market. The economic rationale for the firm ceases to exist when the transaction costs of exercising authority increase beyond the transaction costs of spot contracts (Drtina & Correa, 2011; Marciano, 2011). In the face of economic dysfunction the firm could (a) reduce itself through outsourcing in the hopes of restoring the cost effectiveness of authority over mere spot contracts. The firm could also (b) reduce inventory, renegotiate its debt, and reduce staff, and so on, in an effort to restore the advantages of managerial authority. By failing to take these or other options the firm becomes essentially a cluster of spot contracts portrayed in a balance sheet.

From the perspective of value distinction, the balance sheet at best portrays just the commercial exterior of the firm, and only achieves external credibility when there is accurate accounting and reliable auditing. Without accuracy and reliability, assumptions about the ‘bottom line’ of a firm are meaningless. But even with that assumption, the ‘bottom line’ may be an inadequate indicator of dysfunction because it tells nothing about the internal relationships or about the balance between the moral and commercial syndromes within the firm.
CONCLUSION

The complex moral structure, which the JVD identifies with respect to the firm, explains why constant monitoring of agency theory effectiveness and the constraints of stock options and debt discipline are essential. There are further insights to be gained by analysing the predominant schema for universal principles to guide global business managers (Ross, Ross, & Creed, 2012). At the business level, when the guardian core of the firm gets the upper hand, the guardian value of deceive for the sake of the task is likely to exert itself, and management will act in its own interests rather than the interests of its shareholders and/or creditors. Application of the JVD predicts that under certain market pressures, the hybrid nature of the firm may cause both managers and shareholders to engage in morally risky behaviour. The JVD also informs managers and policy makers about the intention and moral impacts of adherence to sets of principles about universal approaches to global business.

We note that the balance between the syndromes identified by Jacobs is not equal in all circumstances; for instance, firms that are closer to being guardian in their functions (such as newly privatised utilities, or gas pipeline companies in newly deregulated markets) may end up taking risks which increase their potential for wrongdoing. By way of example, the use of rank-and-yank performance reviews may result. Jacobs and others warn that the social structure in such firms can become more guardian than usual, with management resorting to typical guardian behaviours on a regular basis. Predictably, such a firm may seek to garner political friends by making political contributions and excessive charitable contributions. We have already seen excessive largess denounced as immoral behaviour (Barry, 2000a; Jayawardana, 2011). As market competition and other circumstances deprive such a firm of the surplus resources it uses for largess, it may attempt to become a monopoly. In that process, the management may gain a reputation for the use of bullying tactics and other questionable practices. If management surrounds itself with ‘yes people’ it is likely to experience little or no opposition. However, an organisation comprised entirely of sycophants would be a formidable but short-lived competitor. Such an organisation could not last because sycophantic people tend not to be critical, creative or objective, and are inclined to rubber stamp the plans of their superiors. When a firm becomes increasingly incompetent, it is likely to engage in deceptive practices to hide its affairs from shareholders and others.

It is precisely this phenomenon that composes the ‘belt of foam’ on the edge of the maelstrom. Astute managers have only limited options as their organisations teeter into the abyss of continued moral decline. Our assessment of agency and stakeholder theories, along with the UN Global Compact as a strategic policy initiative for business, in light of the JVD demonstrates a heuristic device that can be applied by managers and stakeholders alike. The approach promoted in this paper focuses on the things managers can do to understand why moral dilemmas occur and suggests analytical tools which lead to practical decisions to help prevent moral breakdown (Connell, 2008). As such, the JVD can be viewed as a tool for improving corporate and governance functions at a crucial time in global organisational evolution.
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