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## Management Ethics [January / February, 1998]

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Item Type	Journal
Authors	Selley, David C.
Publisher	The Canadian Centre for Ethics & Corporate Policy
Rights	With permission of the license/copyright holder
Download date	2026-07-10 22:36:50
Link to Item	<a href="http://hdl.handle.net/20.500.12424/177241">http://hdl.handle.net/20.500.12424/177241</a>

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## management *ethics*

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January/February, 1998

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### Review of 1997 events in corporate ethics

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#### Editorial

This is the first issue of a reborn “**management ethics**” and my first as editor. Its primary goal is to be useful to corporate and individual members of the Canadian Centre for Ethics & Corporate Policy (the Centre) and others who are concerned with corporate or business ethics issues in practice. Subject to the views of readers, future issues will contain news of what is happening in the sphere of corporate and organizational ethics, as well as newsworthy or notable articles by contributors – letters to the editor are also welcome.

Part of the mission of the Centre is to promote the consideration of the ethical dimension in corporate policies, practices and decision making. It also “explores and promotes the role of ethics in the conduct of all business by organizations and individuals who work for them.” That is also the mission of **management ethics**. Business ethics stories will be included not just for their inherent newsworthiness but as examples of how corporations can be hurt by, or benefit from, unethical or ethical actions respectively. Some articles may be of a more philosophical nature, albeit relevant to the corporate sector. For example, as mentioned below, there is the question whether business corporations and other organizations should act ethically because it is the right thing to do in order to be good citizens, or only because it is good business to do so, or indeed whether the motivation matters, provided the right thing is done and the wrong thing is avoided.

The Centre, and this newsletter, in focussing on **corporate** ethics, necessarily will not address

many of the ethical issues of the day. Dolly, Robert Latimer, Dr. Morgenthaler, circumcision, septuplets and most issues that fall under the heading “medical ethics”, are important but not in our bailiwick. Issues that directly affect corporate conduct are our focus – the future of work, the impact of technology, fair treatment of stakeholders, the environment, international issues such as treatment of employees of subsidiaries and suppliers in third world countries, and business in the community, as well as the overriding consideration of how to make ethical conduct actually happen in large and complex organizations.

Recently, I have had access to a sophisticated media search capability and have been astounded by the enormous number of corporate ethics news events occurring each day, even though they may not all be identified as such. Most of the 1997 survey that follows comes from such sources. But that excludes almost everything that is happening in the academic world, so it is far from complete. Also, directors of the Centre, and our Executive Director, Elizabeth Loweth, have been busy spreading the word by speech and pen – very little of this appears in this issue. I take sole responsibility for the almost infinite number of omissions. Matters that are included are purely at my whim – they caught my attention, and any views expressed are not necessarily those of the Centre.

I look forward to hearing from readers about events or articles they wish to submit. This is a busy and, I am convinced, growing field of interest and need – and challenging. I trust the material in this newsletter will be part of the solution.

Visit our web site and find out more about the Centre and its activities, including the Spring 1998 Luncheon Series of speakers (March 4, May 6) and the April 7 Conference (see page 3). Watch out for announcements about events commemorating our 10<sup>th</sup> anniversary.

## Review of 1997

### International business - lots of action!

In *April*, President Clinton unveiled a so-called “Sweatshop Accord” sponsored by a number of footwear and apparel companies and labour groups. The accord establishes minimum wage, child labour and other employment standards. It is voluntary and many important companies have not joined. Those that have supported this initiative include Nike and Reebok, both companies that had received extremely unfavourable publicity and suffered damage as a result of public reports of appalling conditions in some of their Asian plants, or those of their suppliers. The code includes establishment of “independent external monitors”. It will be interesting to see how this initiative develops as implementation mechanisms are established and results start coming in, as well as how the public reacts to products that do not display the “No Sweat” label that participating (and complying) companies may attach to their products.

In *September*, Lloyd Axworthy, on behalf of the federal government, announced the “International Code of Ethics for Canadian Business”. Canadian Occidental Petroleum and other large Canadian companies promoted this voluntary, but very ambitious, initiative which is also supported by several key business organizations. The press generally hailed it as a worthy first step, but no more than that. It will be interesting to see whether the small initial group of participants will expand (for example to Crown Corporations), and whether a practice of reporting compliance develops over time.

In *October*, it was reported that the US – based Council on Economic Priorities had initiated “SA 8000”, a verifiable code of conduct for operations in poor countries. It is supported by several large multinationals in the US and UK. Those signing on agree to be independently inspected.

In *December*, OECD members including Canada signed the “Convention on Combating Bribery of Foreign Public Officials in International Business Transactions” – a major step. Signatories are required to introduce legislation by April, 1998 that makes it a criminal offence to pay such bribes, or conspire with others to do so. In essence, such legislation would be similar to the existing US Foreign Corrupt Practices Act. The Convention also establishes monitoring structures to check whether countries establish such laws and enforce them in practice. Assuming Canada doesn’t lose its legislative nerve, this will be a major step forward in the prevention of foreign bribery by Canadian companies, although it will not totally eliminate the problem – no mere legislation could.

On a more negative note, in *May*, a study by the Canadian Lawyers’ Association for International Human Rights, in collaboration with the International Centre for Human Rights and Democratic Development, reported that only a very few Canadian companies had incorporated OECD core labour standards into their codes of conduct, and even fewer had permitted independent audits of their code. Those reported to have audits were Apple Canada, Cambior Inc., Hudson’s Bay Company, Hydro Québec, Inco and Pratt & Whitney Canada. Ontario Hydro also received favourable mention for its code. Perhaps the initiatives mentioned above will in time add to this list.

### Books and other Publications - plenty to read

A number of books were published in this area. Some that came to my attention (I haven’t read them all) were:

- *Greed* (Deborah Thompson) – Deborah was also one of our luncheon speakers (page 3).
- *Moral Leadership: Facing Canada’s Leadership Crisis* (Robert Evans).
- *Hard Like Water: Ethics in Business* (Vincent Di Norcia).
- *Corporate Abuse* (Leslie Wright and Martin Smye).

Also noteworthy:

- The Globe and Mail has started a welcome Business Ethics column in the Report on Business every Thursday – read it!
- October and November saw a series of articles in the Los Angeles Times, including some real life fascinating business ethics dilemmas.

## Survey (cont.)

### Books and other publications (cont.)

- KPMG published a business ethics survey that received significant media attention.
- The Conference Board of Canada published an 11 page joint venture supplement to the Financial Post entitled “Business in the Community”.
- The Toronto Star at the end of the year published a series of important articles on youth unemployment and what the public and corporate sectors might do to alleviate it.

### The Centre’s luncheon speakers - inspiring

*Speakers at our luncheon series continued to be a source of important and thought-provoking ideas and comment.*

The highlight event for me this year was the debate between **Terence Corcoran** of Globe and Mail fame and **Carol Hansell**, now Vice Chair of the Centre, on the subject “Resolved: That Corporations Should be Accountable Only to their Shareholders”. The Corcoran view was as anticipated – broadly that it was the duty of a corporation and its directors and management to make as much money as possible for the owners (shareholders) within the law. He argued the case eloquently and forcefully and I am sure convinced some in the audience. I willingly betray my bias by preferring Carol’s response. Instead of just taking the easy way out by arguing that good ethics is good for business (thereby perhaps holding out hope of a reconciliation with Terence), Carol argued that

as legal persons corporations have a moral responsibility to behave responsibly within society, just as individuals do. A future issue will provide more on this debate.

**Deborah Thompson**, author of *Greed* (see page 2) provided a fascinating insight on what motivates trusted, well paid and well positioned people to turn to white collar crime.

**David Nitkin**, President of EthicsCan, spoke on “Non-financial Measures of Corporate Social Performance”. David also raised the issue of whether better results might be achieved by using what he terms a “sniff test” to determine whether a particular course of action is ethical, rather than a written code of conduct.

**Glorianne Stromberg**, member of the Ontario Securities Commission, spoke on the need for more work in developing suitable ethical standards in the mutual fund industry.

*"The most important thing to come out of a mine is the miner."* – words attributed to Frédéric LePlay, a French sociologist and inspector-general of mines in the 19<sup>th</sup> century and quoted by Nova Scotia Justice K. Peter Richard in his report on the Westray mine disaster. The Executive Summary of this report is a masterpiece of clarity, forthrightness, wisdom and compassion.

**The Canadian Centre for Ethics & Corporate Policy  
and  
The Conference Board of Canada**

**Present a conference at Royal Bank Auditorium in downtown Toronto**

**THE CHANGING NATURE OF WORK: ETHICAL OPTIONS AND SOLUTIONS**

APRIL 7, 1998

**Speakers include:**  
**The Honourable James Flaherty, Ontario's Minister of Labour**  
**Diane McGarry, President and CEO, Xerox Canada Inc.**

For further details contact the Centre – see back page.

## **Survey (cont.)**

### **Are codes of ethics enough? - Are they necessary?**

- Those knowledgeable about business ethics in practice know that ensuring a code of conduct is applied in practice is a huge challenge. In September it was reported that employees of the big three automobile producers had accepted inappropriate favours from employees of a major Canadian automotive parts manufacturer. All four companies concerned have codes of ethics and nobody suggested that such activities were company policy. Yet they occurred, and were an embarrassment to all. This was all in the same year that the rigour of GM's code of conduct in particular received plenty of publicity.
- Notwithstanding the relevance of "sniff tests" (see above), most believe codes are necessary, at least as part of the solution. As Michael Deck, head of KPMG's Ethics & Integrity Services, said in the Globe and Mail's ethics column, "Rules without integrity are unreliable; integrity without rules is exceedingly rare."

### **Some other news highlights**

**BAD** The report on the Westray explosion revealed a massive ethical, as well as a mine, disaster; the report of the Krever enquiry also raised major ethical issues.

**GOOD** Courtney Pratt's article in the Globe and Mail's business ethics column (October 2) – great stuff! Mr. Pratt, Chairman of Noranda Inc., says "I consider it a responsibility of business to be one of the key contributors toward the evolution of society in a direction that will benefit every stakeholder".

**GOOD** Vancouver based Ethical Growth Fund was in December designated "Fund of the Year" in Gordon Pape's 1998 Buyer's Guide to Mutual Funds – more evidence that investors wanting to consider the ethical dimension in their investment strategies need not necessarily accept below average performance.

**GOOD** The "Career Edge" program gained some publicity in September when the federal government agreed to participate with some public sector jobs. Career Edge is a private sector initiative by over 250 companies and other organizations aimed at providing "business internships" for young people.

**IMPORTANT** News in the fall that Bata Shoe had decided to pull out of Nigeria because, as

Sonia Bata was quoted, "The corruption killed us". If more companies pulled out of countries with the very worst corruption records, more progress might be made.

**ILLUMINATING** Nigeria, in fact, came bottom (52<sup>nd</sup>) in the 1997 version of Transparency International's annual corruption index. It measures the level of corruption perceived by businessmen as impacting commercial life, based on several surveys. Canada came an impressive fifth from the top (i.e., the least corruption!); the US came 16<sup>th</sup>. I hope Canada would place similarly in a table of countries whose business leaders are willing to **pay** bribes to foreign officials to achieve competitive advantage. But I doubt we would rank as well.

**BAD** And what can one say about Bre-X? Perhaps this was just a fraud, albeit a big one. But was it also an ethical failure at the corporate level, or more generally on the part of the securities dealers who marketed the shares, the financial press that with a few exceptions jumped on the bandwagon while it still had wheels, and the speculative investors whose greed in some cases overcame their common sense? A worthwhile debate, I think.

*“To say that the purpose behind business is to make a profit is to say that the reason for living is to eat.”* (David Nitkin in a letter to the editor, Report on Business, in July).

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**management ethics** is published bi-monthly by the Canadian Centre for Ethics & Corporate Policy  
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Printing courtesy of BDO Dunwoody