Finding True North on the Corporate Moral Compass

By **WILLIE CHENG**

Most boards will say they have a corporate moral compass, whether they consult it or not. When they do, they may well find that their true north – the organisation's (moral) purpose – has shifted. For the business sector as a whole, true north has moved with the times, from a long season of "all is good" to shorter ones of "do well" and "do good", and now potentially, "do right" in a woke world.


ALL IS GOOD
DO WELL
DO GOOD
DO RIGHT
N·E
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Corporate ethics and morals usually come front and centre in the discourses and regulatory actions following a major corporate scandal, such as Enron and, more recently, FTX. Unfortunately, scandals, big and small, litter the corporate landscape. The moral values of the corporation have thus always been pertinent but are often the elephant in the (board)room.

Debates on a company's moral values have ebbed and flowed inside and outside boardrooms across the centuries since the corporation was invented. If we trace this journey, we can perhaps abstract four seasons and themes in the prevalent values of the corporate world:

1. "We are good": Economist Adam Smith's vision of a free market undergirded by social values.
2. "Do well": The neoliberal explanation of shareholder primacy as expounded by economist Milton Friedman.
3. "Do good": Stakeholder capitalism as upheld by the sustainability movement.
4. "Do right": Corporate purpose and conscience in a woke and politically conscious world.

Ethics, morality and law

First, a brief on ethics, morality, law – and the nuanced distinctions between them before we retrace the journey on corporate morality.

Morals come from within a person. It is something we intuitively feel is right. Moral values are the judgements, standards and rules of good conduct that the majority in society could largely agree to.

Ethics are extrinsic rules to guide behaviour and decision-making, sometimes by weighing the pros and cons or competing values and interests. Ethical standards are usually articulated in codes of conduct set by organisations.

While ethics is guidance (hence, seen as optional), compliance with the law is mandatory, with regulatory consequences for breach. Unfortunately, business ambitions often lead managers to aggressively push beyond ethical boundaries, only staying just within the legal limits.

What is illegal is usually unethical and immoral because morality informs ethics and the law, but not always. Similarly, what is not moral is usually unethical, but not always. See the box "Is it Legal, Ethical, Moral or What?" for an illustration of the differences.

That said, most people use the terms "moral" and "ethical" interchangeably, and that is generally acceptable from a practical standpoint.

Season 1: "We are good"

Modern corporations operate on the free-market model envisaged by 18th-century philosopher Adam Smith, considered the father of modern economics.

Smith believed that people are selfish but not self-centred and, therefore, are basically good. In his 1759 book, *The Theory of Moral Sentiments*, Smith shows that our moral ideas and actions are a product of our very nature as social creatures. While we naturally look after ourselves (this being merely prudence), we are also endowed with sympathy (today, we call it empathy) for others. Morality is, therefore, not something we have to calculate. It is natural, built into us as social beings.

Smith thus argued that rational self-interest informed by moral judgements based on fairness and justice would promote the best interests of society, guided by the "invisible hand" of the market.

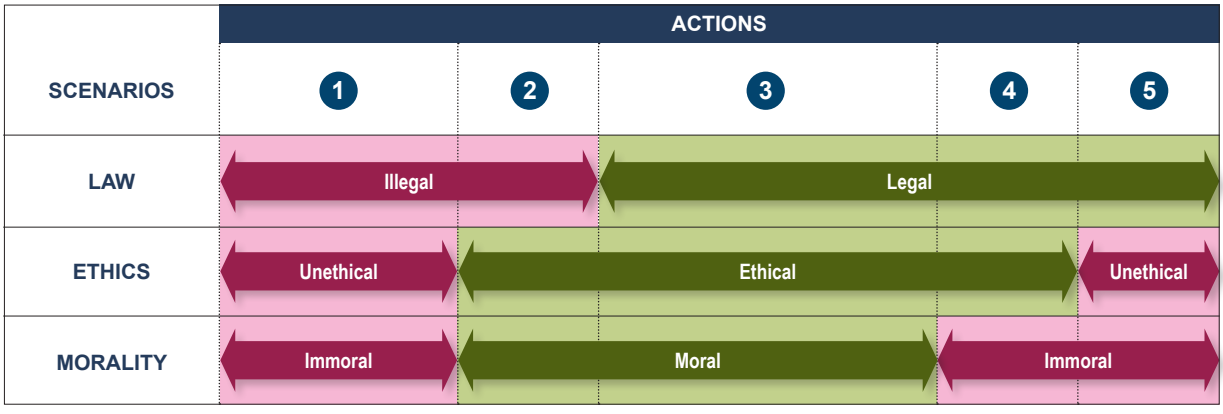
According to a 2018 British Academy paper analysing the historical role of corporations in society from antiquity to the present day, social

Is It Legal, Ethical, Moral or What?

Case Example

Company A is a construction firm that employs migrant worker M. Company A proudly informs customers that it champions worksite safety and observes the Workplace Safety and Health Act (WSHA), which, for example, requires personal protective equipment (PPE) for workers.

Legal, Ethical and Moral Scenarios



Examples of the Scenarios

Scenario	Example of Company's Action	Action is			Comment
		Legal	Ethical	Moral	
1	Company A's supervisor physically abuses M.	N	N	N	A no-no: violates the law, and ethical and moral standards.
2	Company A agrees to M wanting to work for Company B on his day off, but it is against the work permit granted to M.	N	Y	Y	Illegal, but not unethical or immoral as M is willing and benefits from the arrangement, and Company A is agreeable to it.
3	Company A treats M very well and within the law.	Y	Y	Y	The desired zone: legal, ethical and moral.
4	Company A provides food to M, which is deducted from M's wages, but the food is barely adequate and not nutritious for his labour.	Y	Y	N	Not illegal nor unethical (some might argue that it is unethical), but immoral because it does not respect the dignity and long-term health of the worker.
5	Company A deploys M to work on the roof of a three-storey house. M is provided with PPE, including hard hats, safety boots, high-visibility vests and ear plugs.	Y	N	N	Not illegal. The PPE may comply with the WSHA but would not prevent serious injury sustained when falling from a height. The company did not provide effective measures against falls, such as safety harnesses, fall arrest systems, safety nets and adequate training. The action is, therefore, not ethical or moral as it violates the company's ethical stance.

purpose had long been a defining trait of the corporation since the concept of legal personhood appeared.

The study highlighted the benevolence of large corporations such as Macy's and DuPont in the US, Cadbury in the UK, and Krupp AG in Germany in initiating corporate welfare plans. It also observed that "1950 to the 1980s proved to be the heyday of worker-orientated, industrial paternalism, but by the 1990s, the social contract between America and the 'good corporation' had disappeared".

So, what exactly happened?

Season 2: "Do well"

What transpired was that there was a shift of thinking from the "good corporation" to one with no social responsibility but exclusively focused on financial success for its shareholders.

The credit (or blame) for this fanatical focus on "doing well" falls on the Nobel Prize-winning economist Milton Friedman. In 1970, he famously wrote that "the one and only one social responsibility of business [is] to use its resources and engage in activities designed to increase its profits". Friedman's logic is that it is the government's role to protect the public interest and devise the rules and initiatives to do so, ensuring a level playing field for all market participants.

Since then, many businesses and other leaders have come to treat and promote Friedman's views as gospel text. Intentionally or otherwise, such advocacy led to mantras like "maximum shareholder value" and "greed is good", which, in turn, drove much contemporary corporate misbehaviour.

To be sure, companies' pursuit of maximum economic returns, as well as enhanced international trade arrangements and globalisation, have resulted in unparalleled economic growth for developing and developed countries.

However, at the same time, the pernicious effects of shareholder capitalism carried to its excess came to light: climate change, rising income inequalities, the global financial crisis, and corporate activism such as Occupy Wall Street.

Season 3: "Do good"

As these issues became more evident in the last two decades, there were pushbacks and calls for reforms to this model of brute capitalism from all quarters.

Social activists enjoined corporations to get on the bandwagon to "do good" while "doing well". More and more consumers are buying green, living healthy lifestyles, and boycotting those they believe are contributing to the world's troubles. Investors have begun to seek sustainable investments in their different forms. Regulators are tightening listing rules, codes and regulations to promote a sustainable world. Even corporations themselves have joined the fray to lead the change in their respective sectors.

Political, religious and other thought leaders proposed variants of a new capitalism. From the Caux Round Table's "moral capitalism" to the late Thai King Bhumibol's "sufficiency economy" and Pope Francis' "virtuous economy", there were two key, distinctive ideas at their core:

- Companies should meet the needs of not just shareholders but also the broader group of stakeholders (customers, employees, suppliers, investors and the community).
- Companies and the people who run them should focus on values (both human and community) and not just value (profits and economic gains).

The calls gained traction, and the corporate world has coalesced around the sustainability movement, which began with concerns about human sustainability on planet Earth. Over time, the sustainability agenda evolved to encompass three overlapping areas of concern: climate change; adverse impacts of poverty, inequality and social tensions on the community; and corporate governance.

Thus, the sustainability agenda for corporates today mainly focuses on the impact of ESG (environmental, social and governance) factors on their companies. And many companies use the UN's 17 Sustainable Development Goals (SDGs) to define and shape their ESG outcomes.

Season 4: "Do right"

In August 2019, 181 US leading CEOs, who are members of the Business Roundtable, signed a "Statement on the Purpose of a Corporation". They essentially committed to moving away from shareholder primacy (which was their stance in their 1997 "Statement on Corporate Governance") to stakeholder capitalism.

Since then, there have been significant discussions on "corporate purpose", with soul searching by many corporations for their own corporate purpose.

By "purpose" is implied "moral purpose". The Business Roundtable 2019 statement said, "purpose is the statement of a company's moral response to its broadly defined responsibilities, not an amoral plan for exploiting commercial opportunity."

Professor Colin Mayer of the University of Oxford defined the (generic) purpose of business as "producing profitable solutions for the problems of the people and planet, and not profiting from creating problems". The World Economic Forum, Enacting Purpose Initiative and the British Academy, among other prominent organisations, have adopted this definition.

Much of the discourses on stakeholder capitalism and corporate purpose have been on long-term value creation for stakeholders aligned with sustainability goals, particularly the SDGs.

In other words, they focus on an organisation's mission – which can be about profits but should be much more than just profits – defined in a meaningful way that appeals to its people's innate sense of what is right and worthwhile.

In the search for the deeper meaning for what they do, many corporations found a collective consciousness for moral rights and wrongs among their people. Perhaps it is today's more woke world of greater concerns about social injustice, but it is also likely the effects of responding to the Covid-19 pandemic, geopolitical tensions (Ukraine war, US-China relations) and the climate crisis that have raised a broader awareness of what a better world should be.

In the process, some corporates began finding themselves exercising and, in many cases, being pressured by employees, customers and others to exercise, their corporate conscience.

Exercising corporate conscience extends beyond aligning and integrating the company's business and operations to the SDGs and being diverse and inclusive in its workforce and boards. It also entails visibly taking a stand and speaking out on social and political issues that may not be directly connected with or impinged on the company's business. And in some cases, it entails making difficult business strategic decisions on matters of right and wrong to even forgo business at great costs to themselves. See the box "Exercising Corporate Conscience" for instances of companies taking this route.

Pressures to address political and societal issues will mount.

Exercising Corporate Conscience

Refugee Centres. The US government outsources the detention of refugees and migrants who enter the country without proper documentation to several privately-managed detention centres and prisons. Human rights organisations have frequently criticised these facilities for inhumane and degrading treatments. In 2019, Bank of America, JP Morgan and Wells Fargo announced that they would no longer lend to companies that run the controversial centres.

Black Lives Matter (BLM). BLM is a political and social movement highlighting racism, discrimination and inequality experienced by black people in the US and elsewhere. As tensions flared after the murder of George Floyd, a black man, by a white policeman in May 2020, protestors against racial injustice and police violence found unexpected support from major US corporations such as Nike, Twitter and Citigroup. Netflix explained why in a tweet: "to be silent is to be complicit."

#StopHateForProfit. In July 2020, civil rights groups organised a month-long advertiser boycott of Facebook to protest against the platform's handling of hate speech and misinformation. Over 1,000 advertisers publicly joined in, while many quietly scaled back their spending.

Jan 6 insurrection. Following the defeat of then-US President Donald Trump in the 2020 presidential election, a mob of his supporters attacked the US Capitol Building in Washington DC on 6 January 2021. This was the culmination of Trump's and many Republicans' efforts to overturn the 2020 election results on the false claim that the Democrats had "stolen" the election. In the wake of the Jan 6 insurrection, scores of corporations, including large ones such as American Express, BlueCross BlueShield, Dow and Marriott, suspended donations to the 147 Republicans who voted to overturn the election results.

Ukraine war. On 24 February 2022, Russia invaded Ukraine in a "special military operation" widely denounced by the rest of the world. In response, over a thousand companies have abandoned or scaled back their activities in Russia. Those that have exited, some at tremendous cost to themselves, include Adidas, American Express, H&M, McDonald's, Shell, Starbucks, Uniqlo and Visa.

Coal financing. Coal is the most polluting fossil fuel, contributing severely to climate change. More than 40 countries have pledged to phase out coal power. Across the world, over 100 global financial institutions are exiting coal financing. In Singapore, the three local banks (DBS, OCBC and UOB) have announced plans to limit lending based on their clients' exposure to coal, although critics say that the time-bound limits are not tough enough in keeping with global trends.

When the military in Myanmar staged a coup on 1 February 2021 to oust the democratically elected government, it was widely condemned by ASEAN's and other world leaders. Coup protestors went on social media to call for the boycott of Singapore brands and products such as Tiger beer, BreadTalk and Ya Kun toast, citing Singapore as Myanmar's major investor and its earlier support for the military regime. Many businesses reassessed their investments in Myanmar, but few Singapore companies have publicly pulled out.

Ignoring such issues will become more difficult as the world becomes more political – and more politically correct.

The *2022 Edelman Trust Barometer Special Report: The Geopolitical Business* highlighted the rise of "The Moral Corporation". It noted that "expectations for corporate leaders to take a stance on societal issues have risen since the Business Roundtable's 2019 redefinition of the purpose of the corporation – and intensified by the combined effects of a pandemic, an economic shutdown, ongoing social justice battles, employee and investor activism, inflation and general societal instability".

Role of board and directors

Every board should have a moral compass and consult it frequently.

Having a moral compass starts with proactively and openly communicating the board's position on moral values.

Most organisations have a Code of Ethics and Conduct. This is good, and it should be applied and regularly reviewed and updated, especially by defining or revisiting the corporate social purpose.

But that is not enough. Morality is more than ethics (see box, "Is It Legal, Ethical, Moral or What?"). Morality has to do with reasoning and behaving according to values that extend beyond narrow self-interest.

There must also be a focus on organisational values and leadership. As the apex body, the board sets the tone for corporate morality by encouraging and reinforcing moral reasoning and behaviour.

It would be impossible to list down all values that are moral. There are no hard and fast rules. Rather, moral values should guide discussions within the board and in its dialogues with management and shareholders. And moral attitudes and stances should take priority when decisions are made.

Directors can influence and affect the corporate moral compass if they individually are driven by a strong personal moral compass. A compass that points to true north, whether it means standing up to a dominant shareholder or CEO, risking losing a prestigious directorship, going against the consensus, or giving the real reason for resignation rather than masking it as "for personal reasons".

Implementing a moral code requires mechanisms for accountability. Those who violate the rules and the code should face the consequences. Mechanisms for reporting wrongdoing and removing impediments to doing so are critical. It also includes recognising and rewarding moral and ethical thinking and behaviour, particularly when it goes against the mainstream.

The right board members for "doing right" have never been more in demand in this season of corporate morality. ■

Willie Cheng is a former Chair of SID. An excerpt of this article was published in The Business Times.