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ETHICS AND THE CORPORATION

*David Rockefeller**

We have been hearing a great deal lately about the want of ethics in public and private life, about the need to set standards and pass laws affecting official and private behavior. The danger in all this is that we may substitute platitudes for deeds, that we will talk too much and do too little. For while ethical ideas do lend themselves to codes and to statements of principle, their real force and validity can come only from putting them into effect. Nevertheless, we must start with ideas and principles. Every society, every institution, every organization, and every individual needs a set of moral guidelines, not only for internal governance but also for the conduct of its external affairs. In large parts of the world today people have minimal need for codes of ethics, because their governments tell them how to think, how to express themselves, how to act, and how to serve the state. But a moral foundation is imperative in a free society that affords each individual the latitude for independent thought and action. Without ethical values a free society would become a jungle, and then, seeking order at any price, would soon find itself no longer free.

Making free choices in areas where there are competing interests are among the toughest problems faced by a free society. Some examples that come to mind are the conflicts between the demands for more energy and the pleas for a cleaner environment; the conflict between the public's right to know and the individual's or the institution's right to privacy; the widening breach between the democratic ideal of equality and the respect that has traditionally been accorded to excellence within a democracy. In resolving these differences ethical considerations guide our ultimate decisions and actions. A simple sense of responsibility and duty to others can probably help us more than months of congressional and editorial debate. We all know, for example, that the world must have more energy if it is to raise the living standards of a still-growing population and accommodate the crying needs of the poor and underprivileged. We also know that it would be against the long-run interest of society to obtain that energy at the expense of an unacceptable

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level of pollution. Making the necessary trade-offs will require a high order of moral and responsible behavior on the part of all elements of society—the producers of energy, the regulators in government, and the public at large.

It is clear that ethics must play an important role in the search for solutions to our problems. From my own perspective, that becomes most obvious in the world of business. Ethical principles are the glue that holds the business system of a free enterprise society together. Business runs on mutual trust and confidence that others will live up to their word. The marketplace, which is the heart of a business society, could not exist without it. As Benjamin Franklin once observed, “If the rascals knew the advantage of virtue, they would become honest men out of rascality.”¹ Stanley Marcus, of the Nieman-Marcus Stores, expressed the same thought another way in his memoirs: “There is never a good *sale* for Nieman-Marcus unless it’s a good *buy* for the customer.”² The real point is that honesty is not only good business policy, it is also a vital ingredient for carrying on a successful business.

By and large, I believe that the typical American business enterprise is keenly aware of this and has made a genuine effort over the past decade to improve its performance in serving society’s needs. Indeed the term “social responsibility” has become a permanent part of the corporate lexicon. Many companies, however, have encountered problems in applying the concept to their day-to-day business operations. To some, social responsibility has meant stepping-up financial contributions to urban projects. Other companies have undertaken programs to minimize pollution, train the hard-core unemployed, or counsel the disadvantaged. All of these are valid answers but, frankly, we often have a hard time coming to grips with what we mean by the concept.

Clearly, however, with our country’s confidence badly shaken by disturbing disclosures of corporate bribery, illegal campaign contributions, and scandal at the highest levels, business has no choice but to alter dramatically the way it discharges its social responsibilities. Specifically, the time has come for companies to move beyond narrow notions of corporate social responsibility and to adopt instead a more deep-rooted and pervasive framework of ethical policies and procedures that will guide every decision the corporation makes.

1. Quoted in C. VAN DOREN, BENJAMIN FRANKLIN 650 (1938).

2. S. MARCUS, MINDING THE STORE 3 (1974) (emphasis in original).

Ethics are already incorporated into management decisions in most American companies, but on an individual, intuitive basis. The challenge now is to “institutionalize” ethics by shaping specific corporate codes of conduct and integrating ethical practices more firmly into corporate policy. Developing a comprehensive code of ethics for a corporation is no easy task. One of my colleagues at Chase Manhattan Bank compares it to “nailing a custard pie to the wall”: Moral generalities are often too broad to be meaningful; yet a complete list of “thou shalt” and “thou shalt not” is not only impossible, but also too restrictive of individual freedom of choice and action.

At Chase Manhattan Bank we took an approach somewhere between these extremes. We sought first to establish a proper climate for making ethical decisions within the bank; and second, to provide illustrations that built a framework that provides practical guidance. We based our approach on four fundamental cornerstones that for us seemed essential to the highest standards of business conduct: (1) Honesty and candor in all activity, (2) integrity in the use of corporate resources, (3) avoidance of conflicts of interest, and (4) fairness in dealings with all.

Let me illustrate briefly how we apply these values in our normal course of doing business at Chase. The nature of the banking business demands that we practice absolute honesty in all our affairs. Banking is based on mutual trust, on the faith and confidence of the public. In a working sense, this translates into strict internal policies governing personal fees, commissions, solicitation or acceptance of gifts, and the like. It also demands an atmosphere that fosters candor among our employees in reporting promptly any questionable or illegal action that may come to their attention.

As for integrity, a bank’s right and ability to manage the resources for which it is responsible is affected, directly or indirectly, by many different constituencies—our stockholders, our customers, governmental agencies, the communities we serve, our staff, and the public at large. In dealing with these diverse groups, it is critical that we treat these resources in the most prudent and proper manner. This has profound implications, for example, in setting loan policy, which touches the lives and interests of many. Chase’s general policy is to pay strict attention to the legal, moral, and social implications of all of its loan decisions, over and above our normal concern that we make safe loans at a fair return.

In the case of loans to South Africa, for example, this approach has resulted in a policy that specifically excludes loans that in our

judgment tend to support the government's apartheid policies or reinforce discriminatory business practices. Conversely, we are willing to consider loan proposals for projects of a productive nature that we believe will result in social and economic benefits for all South Africans. Invariably, our policies with respect to a particular part of the world will change as circumstances change. Recently, Chase and two other United States banks agreed to provide thirty-three million dollars in loans to urban blacks in South Africa for housing construction. The funds will be channeled through the Urban Foundation, a private business group promoting constructive social change in South Africa. Perhaps the effort will not make a significant dent in apartheid, but it should make a contribution to improving the living standards of thousands of South African blacks. While I do not doubt the sincerity of those who oppose all corporate involvement in South Africa, it is doubtful whether they have fully considered the fundamental economic needs of the majority of South Africans. Government and business alike must give as much consideration to the ultimate effects of their policies as they give to their intent.

To be sure, there is a certain risk inherent in linking lending policy to a set of ethical standards. But taking risks lies at the very essence of our free enterprise system. And ethical risks, like other business risks, must be weighed in the final balance, because avoiding them ignores our public trust.

The third cornerstone of Chase's Code of Ethics is to avoid conflicts of interest. Like lawyers and doctors, bankers enjoy a special relationship with their customers. Because we must understand in great depth the financial aspects of so many individuals and organizations, it is essential that we avoid conflicts of interest internally or breaches of confidence externally.

The fourth and final tenet of our ethical code is a commitment to total fairness in our dealings with all. Internally, this means maintaining high standards in employment practices and continuing the traditional social responsibility efforts: Affirmative action, job enrichment, training and educational opportunity programs, and the like. Externally, fairness requires that we treat customers, potential customers, and the communities we serve with respect and understanding—as indeed we would have them treat us.

In creating our own code of ethics we borrowed much from others and from the long traditions of civilized societies. Essentially, what we have learned is that corporate morality must be based on principle, not self-serving policy, and on conviction, not

expediency. It must not be steered by the way the wind happens to be blowing, but must hold firm in the face of adverse winds. The code reaffirms our belief that ethics are an essential ingredient of business behavior, and that honesty, integrity, and fair dealings are sound business practices as well as vital parts of our moral underpinning. Unfortunately, in many parts of our society cynicism has reached the point where such reaffirmation is necessary, and where dishonesty and unfairness need to be restigmatized in the minds of many.

While values are intensely personal, the most successful nations and the strongest societies and institutions are those in which values are clearly perceived and widely shared. With some careful soul-searching, I think we could quickly discover that our values as a nation are not as fragmented, not as divergent, not as irreconcilable as many believe. If this is so, it should be possible to mitigate many of the differences and conflicts of the past and pursue with renewed determination and judicious balance the achievement of a greater and deeper sense of mutuality and brotherhood.

