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IS THERE A TRANSATLANTIC DIVIDE? REVIEWING PETER F. DRUCKER'S THOUGHTS ON ETHICS AND LEADERSHIP OF U.S. AND EUROPEAN MANAGERS

Abstract

Purpose – Drucker has often been criticized for his pejorative interpretation of business ethics and the use of the term casuistry. This paper will show that Drucker was just the opposite of unethical in his viewpoint regarding the behavior of managers and organizations, and that in fact much of his writings pointed to discourse-ethics-universalism and away from casuistic particularism. Specifically, the paper will analyze and contrast the ways in which U.S. and European institutions shall take action (a “*transatlantic divide*”) when management and society will eventually reposition their stance on ethics, as forecasted by Drucker. The paper will demonstrate this “*transatlantic divide*” by presenting recent evidence from the U.S. and Europe on the contextualization of business ethics.

Design/methodology/approach – The authors opted for a comparative study emphasizing the main day-to-day perspectives of ethical issues in businesses and how they are handled in the U.S. and in Europe. This is complemented by references to what Drucker’s position would be on those issues and how he would have shown that “Good Ethics” serves to ensure that entrepreneurial energies end up by serving society and not destroying it.

Findings – The paper provides an insight about how change is successfully brought about in current management practices by adhering to discourse and right behavior as pointed out by Drucker. It suggests that leaders acting responsibly are intrinsically ethical and will transfer their individual positions into their organization.

Research limitations/implications – The research primarily concentrates around the implications of Drucker’s writings on the “*transatlantic divide*” and does not extensively explore how this relates to businesses in Asia and other areas outside the Western World. However, with Drucker highlighting Confucian ethics, the propositions set forth for a convergence of ethical standards would also entail non-Western thought.

Practical implications – The paper displays a number of standards and guidelines that have been adopted by practitioners and thus provides an input for further applications. Businesses that have adopted Drucker’s philosophies will find useful directions on how to connect them to other philosophical developments.

Originality/value – This paper fulfils an identified need to reject claims that Drucker is an “efficiency enthusiast” pursuing “global change in a manner that has little to do with minimal standards of human decency, to say nothing of democracy, much less of emancipation”. It proves that the changes and the repositioning required for the current economic situation need a full understanding of Drucker in all respects of his work.

Keywords: Business Ethics, Discourse Ethics, Confucian Ethics, Corporate Social Responsibility, Peter F. Drucker, Leadership, Transatlantic Divide, European Business Environment, U.S. Business Environment

Article Type: Research paper

Introduction

Every management student's thoughts and beliefs on leadership and on managing people, and the practice of thousands of managers have been shaped and influenced by the writing of Peter Drucker. Drucker is commonly viewed as the "father of modern management", and many of the terms which we associate with contemporary society and management such as global economy, knowledge worker, information society, etc. were conceived and coined by him. Over his long career, Drucker authored 39 books and countless scholarly and popular articles on multiple aspects of society and how people and businesses are managed and organized. Over these many years Drucker has been the subject of many articles and interviews, both supporting and criticizing his positions. Although Drucker passed away in November 11, 2005, his writings continue to be examined and analyzed, especially in our new economic society where ethics, leadership, and management decisions have huge impact upon the entire world.

On the subject of business ethics, Drucker in his "Note on the Matter of Business Ethics", placed at the end of "The Changing World of the Executive" argued in 1981 that if there ever is a viable ethics of organization, it will have to adopt a concept which restricts ethics to individuals and lets the legal system handle the rights and objectives of collectives (The Changing World of the Executive, 1982, p. 254) ¹. Earlier, in "Social Impacts and Social Responsibilities", a dominant part of his work "Management: Tasks, Responsibilities, Practices" written in 1973, he argued that "all that is needed is to mete out stiff punishments to those – whether business executives or others – who yield to temptation" (Drucker with J.A. Maciarello, 2008, p. 221). Half a decade after his death, would these arguments still hold in a time when the turmoil in the world financial markets has resulted in solidifying public opinion of the need for change in our corporate boardrooms and how CEOs are to govern? In addition, the question is asked, when managers will eventually change their position, will there be a difference between the ways in which U.S. and European shall take action on the subject of ethics and ethical issues (another "transatlantic divide")?

Drucker's position on business ethics has been analyzed from various angles. Several academicians questioned Drucker's and his qualifications to assess ethics in organizations. For example, Howard A. Doughty (2003) criticized him as an efficiency enthusiast. He said, Drucker would just „pursue global change in a manner that has little to do with minimal standards of human decency, to say nothing of democracy, much less of emancipation“ (Doughty, 2003). Oliver F. Williams (1982), while supporting Drucker's concern that business schools only teach *casuistry* (a term referring to the ethical reasoning for those in power, a.k.a. *Machiavellism*), criticizes that Drucker didn't really view extortion to be an ethical issue if it produces an overall gain for management and the organization (Williams, 1982, p 18). Drucker has published a case study on this issue ("Bribery or Patriotic Duty", in: Management Cases, 1978, pp. 81 – 86).

Other critics have been much less diplomatic and more harsh of Drucker's view on the subject of ethics. Tarrant said, for example and rather harshly, that Drucker is „cold, lacking in humanity..with no awareness of the victims of the marketplace, no anger, no compassion“ (Tarrant, 1976, p xvii). Although we read these criticisms, it is generally felt that many of Drucker's critics failed to look at his writings in their entirety: to the contrary, "all of his managerial writings generally promote and ethical stance for those in business" (Schwartz, 1998, p 1691). Klein, said that the critics „have missed an opportunity to benefit from his acknowledged practical wisdom“ (Klein, 2000, p 121), because it is from there that Drucker „takes business ethics seriously, and develops his position on business *morality*“ (Klein, *ibid*). There is scarcely an author on management who focused on „ethical efficiency“ so explicitly from early on (Drucker introduced this term in his 1960 book "Concept of the Corporation"), and who emphasized the need for an organization ethics long before others (in his 1959 book "The Landmarks of Tomorrow").

¹ References to a work of Drucker will enumerate the full title when it is first mentioned; afterwards, only the year of publication will be given.

Even if Drucker's management theory generates several questionable ethical implications such as his support of decentralization and autonomous profit centers, which emphasizes short term results (M. Schwartz, 2007, p 48), it is widely acknowledged that by including management theory into the business ethics field, Drucker provided a great contribution (Cohen, 2008 p 7). With regard to profit centers, Drucker later lamented, that introducing the notion of *profit centers* was one of the biggest mistakes during his career (he coined this term around 1945). He said that: "the truth is that inside the business, there are only cost centers...profit centers are customers whose check hasn't bounced...we know literally nothing about the outside...the great majority who don't buy your product" (Managing in the Next Society, 2002, p 84). This reflection by Drucker, as he looked at his writings over the span of his long career, shows that what he really sought was the promotion of knowledge not for its own sake but rather for its impact on management (Bowman and Wittmer, 2000, p 26). This also is why, in the case of ethics, he initially denounced the trendiness towards this field as a *trivial chic* and his response was to tell managers to merely do the right thing (Bowman and Wittmer, *ibid*).

In pursuit of placing Drucker's position on business ethics into a context with the practical application of ethical behavior and ethical standards in the various operations of the firm – from advertising to competitor- and employee-relations – the authors of this paper have observed that the view on these issues is different on either side of the Atlantic - a "*transatlantic divide*" as often depicted by Drucker with regard to many business matters. He recognized that what one culture might find acceptable or required for ethical behavior, might be (totally) different in another and even considered unethical: "What managers do in West Germany, in the United Kingdom, in the United States, in Japan or in Brazil is exactly the same... however, how they do it may be quite different." (The New Realities, 1989, p. 229). Although, the extremes may be less pronounced when comparing U.S. and European practice: it is rather that, what may be deemed ethical on one side of the Atlantic, is illegal on the other side of the Atlantic, and what it is deemed unethical here is illegal there. This may be, why Drucker already noted in one of his early writings, that "*the law*" and integrity (a prerequisite for ethical behavior) are not the same, and that the law is needed whenever authority and responsibility have to be defined (The Landmarks of Tomorrow, 1959, p. 62).

In regard to what Drucker meant by "the law", there has been a chronicle of pronounced divide in governance and legal systems between the US on the one end, whose approach has been nourished mainly from the U.K, and Continental Europe on the other end; from this, contrasting views on how corporations should be managed and overseen have evolved. Drucker recognized these differences with entrepreneurship and starting new businesses, when he made the statement: "whereas English speakers identify entrepreneurship with the new, small business, the Germans identify it with power and property" (Innovation and Entrepreneurship, 1985, p. 23). He stated, e.g., that while Europeans devote much effort on technology, their management practices are less developed than those of the Americans (1985, p. 258). He points out that the Germans promote people in their specialties and train them in decentralized units set up as separate companies, and that the French have their large companies often run by former government officials, and that from this, European executives develop a peculiar view on management issues (Drucker with J.A. Maciarello, 2008, p. 277), which is different from how the U.S. CEOs approach management issues. It is the foundation of this thinking and practices that greatly effect how U.S. and European CEOs look at topics such as governance, accountability, and strategic decision-making. These differences, also apply to a host of corporate and ethical issues ranging from CEO compensation, to how the CEO and the companies deal with competitive intelligence, intellectual property rights, employee privacy, and customer relations. But can we, with Drucker's help, find out the recipe to make these differences converge towards a set of universally acceptable standards? Can we properly state that, if we take up his viewpoints, management will be repositioned differently on both sides of the Atlantic, but with an identical outcome?

When taking up Drucker's argument on the superiority of U.S. management approaches (The Changing World of the Executive, 1982, pp. 44 ff.), the counter-argument often is that U.S.

leaders are “ethnocentric” and biased to assume their value system is best (Hofstede 2000). On the other hand, European leaders will often try to avoid uncertainties related with leadership change by “depersonalizing” management. However, some recent thoughts might lead us to believe that American leaders are not as individualistic as has often been suggested. For example, it has been shown that U.S. businesses are highly characterized by an egalitarian commitment even though they mostly have a command and control orientation with a top-down management approach (S. H. Schwartz 1994). This has always been a reasoning of Drucker’s. For example, he said: “For a decision to be effective, being bought has to be built in it from the start ...”. Referring to the former US President F. D. Roosevelt, he states that Roosevelt “first made sure that the people who would have to carry out the decision ... would have thought it through ... and then made his decision from the top down” (Drucker with J.A. Maciarello, 2008, pp. 301 f.). Finally, he wrote in his book “The Effective Executive” that “the effective decision-maker...organizes disagreement...he starts out with a commitment to find out why people disagree” (1967, p 153).

In spite of the many differences, business leaders on both sides of the Atlantic are already, and if only implicitly, adhering to some „code of ethics“ while still being pragmatic in their management practices and decision making. This becomes even more imperative in light of the current challenges in our financial markets and as our businesses and organizations on both sides of the Atlantic are faced with stiff competition from a global market forcing them to do more for their customers with fewer resources. Pragmatism and ethical foundations are both based on rational arguments, and the specific content of ethical behavior to be valid in all types of decision-making must be generated from real-life experiences rather than from belief systems. Real experience shows that if a business performs well it not only rewards its shareholders but also serves the community as a whole. This type of thinking and belief system most closely aligns with the ethical belief system expressed philosophically by Jeremy Bentham (1748-1832), the English father of *Utilitarianism* (“...an action is good if it produces ... the greatest amount of satisfaction for the greatest number of stakeholders affected by the action”)?

The utilitarian position, even though Drucker was not sure of its suitability in business matters (William 1982, p 23) is not too far from Drucker’s argument that the special purpose of an institution must be balanced with the common good (Drucker with J.A. Maciarello, 2008, p. 225). For the general public to appreciate this balance, it is necessary, he wrote, that business executives “make understandable to the ‘laymen’ – the educated people who are outside of business and necessarily ignorant of it – what it is that business does (Management for Results, 1964, p. 226). On the philosophical end, this also is the argument of Discourse Ethics (“A norm is valid when its foreseeable consequences ... could be jointly accepted by all concerned without coercion”, and “Only those norms can claim validity that could meet with the acceptance of all concerned in practical discourse”; Habermas 1999). Discourse Ethics is often thought of as a mere recipe for practical conflict resolution, but when viewing at business, it turns out to be a powerful principle: It is concerned, above all, with stakeholder engagement, and stakeholder engagement is the core of all social standards. Engaging with stakeholders (including a continuing discourse with “the laymen”) and “taking responsibility for communicating” has always been seen by Drucker to be a part of what makes an effective executive which is referred to in one of his last papers for the Harvard Business Review in 2004 (“What Makes an Effective Executive”, HBR 2004, p. 61). Thus, with this we can hopefully find a pathway from «Homo Oeconomicus» (the “pure” Drucker type whose demise he lamented in his 1939 book “The End of Economic Man: The Origins of Totalitarianism”) to «Homo Reciprocans» (the advanced Drucker type assuming all responsibilities an executive manager has to develop) to «Homo Moralis» (the integer type which has, in the end, very well been envisaged by Drucker).

In accordance with the purpose of this paper, the following is a careful examination of Drucker’s work aiming to place Drucker’s position on business ethics and other related topics into a context with the practical application of ethical behavior and ethical standards and to show how these issues are different on either side of the Atlantic among U.S. and European Managers.

Business Ethics and Business Environment

The statements which Drucker choose in his “Note on the Matter of Business Ethics” (see above in our Introduction) would not only get a new focus if viewed against the developments in the U.S. that led to

the passage by U.S. Congress of the Corporate and Auditing Accountability, Responsibility, and Transparency Act of 2002 (Sarbanes-Oxley, 2002); they would also be refocused when looking at the challenges of business ethics in Continental Europe after the breakdown of communism. Democracy is new in many countries of Europe, and even though the concept of democracy is European (as it was invented in the city state of Athens some 2500 years ago), there is a much longer tradition of democratic values in the U.S., and the types of constitutional set-ups which prevailed in Europe have helped to form the differences in the business environment between Europe and the US.

Exhibit 1 shows a list of where business issues differ between the U.S. and Continental Europe. The foremost of these differences is public administration. The list is given here to supplement the many statements by Drucker on the scope of e.g. public administration and union involvement (from his remarks on *Policy in an Industrial Society*, in "Big Business", 1947, pp. 219 – 294, to his statements on the subordination of Germany's competitive standing to the unions' wage demands in "Managing in a Time of Great change", 1995, p. 160). Likewise, it emphasizes that there are different backgrounds on the two sides of the Atlantic behind what Drucker feared to provoke mutual interventions of government in business and vice versa. From there, one can understand Drucker's objection to an interpretation of business ethics that "becomes politicized (by) considering social responsibility an ethical absolute" (The Changing World of the Executive, 1982, p. 241; M. Schwartz, 2002, p 51). Business, Drucker, has always insisted is "not entitled to put itself in the place of government, and ... to use its economic power to impose its values on the community" ("Management. Tasks, Responsibilities, Practices", 1973, p. 350). It would be assumed that this line of thinking conceivably relates to his having witnessed the history of the Third Reich, where businessmen used their "business positions to dominate government and politics . . . (doing) immeasurable damage . . . and (being) largely responsible for Hitler's eventual triumph" ("Post Capitalist Society", 1993, p. 103).

Exhibit 1

Issues that Demonstrate *Differences/Uniformity* of Business Ethics in U.S. and Europe

<u>Differences</u>	<u>Uniformity</u>
Focus of Public Administration	Human Rights
System and Curriculums of Education	Free Market
Sensitiveness to Stock Price-Effects	Deregulation
Corporate Governance	Child Labor
Legal System	OECD Code for Multinationals
Labor Law	WTO (GATT)
Consumer Protection	GATS
Privacy Protection	TRIPS
Workplace Protection	Sustainable Development
Job Rotation	Responsible Care
Job Rotation	Bribery
Organizational Transformation (M&A, Spin-Offs)	Insider Trading
GAAP :Rules-Based; IAS: Principles-Based	Trust within Business Relations
Energy Consumption	

With regard to how far public administration stretches here and there, one statistic "shows it all": According to an Organization for Economic Co-Operation and Development (OECD) source, total cost of government for 2005 as a percentage of GDP were: In the U.S. 33.5, in the UK 55.9, in Germany 55.7, in Italy 59.3, in France 54.0, in Sweden 66.7; the EU average was 51.0 (OECD, 2006). This overall difference in economic allocation to government explains why the legal environment of business on either side of the Atlantic must be different. Also, where we have *uniformity* in the issue we might still find *differences* in attitude. For example with the issue of human rights, as long as there was *Apartheid* in South Africa, U.S. firms withdrew, while European firms remained. While there are still US-sanctions against Cuba, EU politicians favor "humanitarian aid," and while the US generally prefers a "hard diplomacy", Europe deploys a much softer and very different type of diplomacy to conducting business. However, there is a common base for both, which can be traced back to Adam Smith who, long before publishing "Wealth of Nations", delineating the goals attained by the *homo oeconomicus*, wrote "The Theory of Moral Sentiments" where he depicted the *homo moralis*². From

this, one may hold that there is a transatlantic divide in determining which is the proper balance of the two attainments between a nation's economic pursuits and morality.

Beyond the differences in public administration and approaches to doing business by the U.S. and Continental Europe, there are three other, more practical, consequences which may be gleaned from the contents of Exhibit 1:

- First, from the outward evidence for a preference of rules-based approaches in the U.S. (over the principles-based approaches in Continental Europe) as in matters like GAAP and, more generally, Corporate Governance, we may infer that this has a foundation in ethical approaches which are slightly more instrumental and rules-based in the U.S. (Gibson 2007, Ferrell et al. 2006).
- Second, as trust is a common denominator on both sides of the Atlantic with slight variances within Continental Europe³, legal barriers to the global knowledge economy are bound to fail and even the Commission of the European Union will eventually ease its prohibitive Privacy Rules (Di Norcia 2002).
- Third, as legal provisions have a much wider reach in Continental Europe, e.g. in Labor Law, the spectrum of guidance in the US will more often mix ethical and legal compliance.

With regard to regulation, unlike many conservative thinkers, Drucker wanted to keep government intervention over areas like food and drugs and finance. Indeed, in his late years he argued that the rise of global businesses required stronger governments and stronger social institutions, including more powerful unions, to keep them from forgetting social interests. (Banaby J. Feder, New York Times, Nov 12, 2005) Otherwise, his view on bureaucracy and codes was also quite positive. For example, he quotes Max Weber who identified the function of bureaucracy as codifying its experiences and converting them into rules of behavior (Managing in the Next Society, 2002, p. 214), and he also refers to the Japanese who take the primacy of society for granted and positively make use of their bureaucrats (2002, p. 223).

The Legal Environment

Law is inherent in ethics and in how businesses operate on either side of the Atlantic. A basic difference between US/Anglo-Saxon and Continental European practice is that the US and the UK apply case law while on the continent we have a dominance of code law. Then, there is the judiciary, with one topic of almost antagonistic layout which is that of the structure and

² It is quite illustrating that Drucker used the term „moral science“ for (the theory of) management. In „The Frontiers of Management“ (1982) he says: ... ”management is what the Germans used to call a *Geisteswissenschaft* – though “moral science” is probably the better translation of that elusive term than the modern “social science”. Indeed, the old fashioned term *liberal art* may be the test term of all.” (p. 227)

³ According to the prominent American philosopher Yoshihiro Francis Fukuyama (*The End of History and the Last Man* 1992), the US, Germany and Japan are 'high-trust' societies, while Italy, France, Korea, Taiwan are 'low-trust' societies. He has tested his thesis, and while his findings are that spontaneous sociability – one element of trust – makes for economic growth as it establishes orderly industrial structure, he attributes a higher grade to *cognitive* trust. Cognitive trust is inherent in network organizations and this will give a natural advantage to those societies that have a high degree of trust (Fukuyama 1995). In this, we have what we might call a „partial divide“ throughout Europe.

competencies of courts. For example, courts have ample jurisdiction in the U.S., while in continental Europe there is a variety of special courts apart from the ordinary courts such as the labor courts, social courts, and administrative courts. A related topic is that U.S. standing rules allow greater access. For example, in Europe, a case will only be accepted by a court if there is an 'individualized impact', while a case will "stand" before a US- court if whatever infringement of law can be demonstrated. So, while suits to compel administrative action are a normal procedure in the US, in (Continental) Europe cases of administrative inaction are taken to court less frequently than in the US. Also, the Europeans, generally, give priority to a stable political consensus on regulatory matters by prior consultation, while the U.S. court might question the constitutionality of some of the regulatory standards. In addition, in Europe there are many patterns of tightly knit state-society-relations and the state organizes social interests into large representative hierarchies. This is often called a "corporatist" environment, and it has a significant impact on employee representation and the issue of co-determination. Simply put, laws and rules governing unions in the US are not as compelling as in Europe. Even if this may change under the new democratic administration and the democratic congress from 2009, the change will probably never be far reaching. In no case, any change in the U.S. would compare to, e.g., labor law in Germany, where co-determination is not only executed on the shop floor level but also in the boards, and where trade unions and employees representatives have voting rights in the boards. Drucker has coined the European "battle over co-determination" an "explosive issue" which might even infest US corporations (1982, p 202). But it will probably never reach as far as in Europe, and thus there will always remain fundamental differences in how corporate governance is organized and practiced.

The legal environment in the former communist states of Central and Eastern Europe (CEE) is emerging and is still to be developed further. But what matters more is that an underlying ethical foundation like Immanuel Kant's (1724-1804) Categorical Imperative ("*Act only on that maxim by which you can at the same time will that it should become a universal law*") would be implanted in the CEE states. In one of his first writings, Drucker argued that Kant's strive "to establish manmade ethical absolutes (might) end in the complete denial of absolutes and, with it, in the complete denial of the possibility of a truly ethical position" ("*The Unfashionable Kirkegaard*", 1949, quoted in "*Men, Ideas and Politics*", 1971, p. 55). But he certainly did not deny the positive outcome of that strive. Developing the Categorical Imperative further on would encompass the fundamentals of what Karl Popper (1902 – 1994) called the "*Open Society*" and what F.A. Von Hayek (1899 – 1992) called the "abstract rules" of "*Just Conduct*" (i.e. honoring property rights and contracts).

It could be hypothesized that Drucker's view on Kant derives from his preference for the personalist ethic of, e.g., Martin Buber, over the impersonalism of business ethics. Buber, (1878-1965) maintained that the dialogic principle is not a philosophical conception but a reality even beyond the reach of discourse. From there, Drucker deduced that one should never "learn from other people's mistakes . . . (only) . . .but from . . . what other people do right" ("*Adventures of a Bystander*, 1978, p. 75). Thus, Drucker would be closer, not to Kant, but to the ethical concerns expressed by the eminent U.S. philosopher/lawyer John Rawls (*A Theory of Justice - The Ethics of Distribution*; 1973): Welfare of mankind requires control through a set of (fair) rules. Welfare can only be distributed justly if a society, by such fair rules, minimizes the effects of its member's accidental circumstances (intelligence, physical strength, social status. Welfare, according to Rawls, is not just benefits, it is about "primary social goods", which includes the notion that justice (fairness) and self-respect are prior to questions of mere satisfaction. If any pluralistic community reaches consensus on this principle, it will achieve political accord.

Furthermore, with regard to the emerging CEE, there is indeed, at least for the time being, more emphasis being placed on reforming the business laws, on introducing all facets of capital-market-constitution and non-intervention. This is a common approach of the U.S. and European politicians, while it seems that the task of dispersing knowledge on "western" business procedures and (ethical) responsibilities is less taken up by EU institutions than by U.S. businesses and U.S. business schools (Melloan 2005). Drucker has often mentioned that, other than in Europe, business education has become a growth industry in the U.S. , and one can clearly see how this growth spreads to all parts of the world. You would be hard pressed to find an Association to Advance Collegiate Schools of Business (AACSB) MBA program that did not have some type of international agreement of

exchange with other business schools on either side of the Atlantic.

Models of Corporate Governance

Drucker was sometime critical of the institution of board governance as demonstrated by his statement in 1981: “Whenever an institution malfunctions as consistently as boards of directors have in nearly every major fiasco of the last forty or fifty years, it is futile to blame men. It is the institution that malfunctions”. (“The bored board”. In: *Toward the next economics and other essays*, 1981, p. 107).

When looking at the transatlantic divide, we can very clearly see differences between the US and the continental European models of corporate governance (Exhibit 2):

**Exhibit 2
Models Of Corporate Governance**

<u>Traditional (U.S.)</u>	<u>Co-determination</u>	<u>Stakeholder Model</u>
Stockholders	Capital and Labor	Social/political/economic interests
Board of Directors	Supervisory Board	Stakeholders in Board
Managers	Management Board	Managers
Employees	Mgrs/Employees	Employees

While the traditional US model of corporate governance features a “one-tier” structure (there is one layer of supervision between stockholders and managers, and this is the board of directors), the continental European model of co-determination has two tiers; a supervisory board and a management board, with capital (shareholders), and labor (unions and employees being represented equally in the supervisory board). Some economies in Northern Europe have set up what is commonly referred to as a “*Stakeholder Model*”, and this is now also practiced in several states of Central Eastern Europe (CEE). It includes social, political and economic interests in the oversight and in the board levels. Drucker has often argued that shareholder interests are not to be the primordial ones, but they would have to be “subordinated to the maintenance of the business as a wealth-producing, goods producing, job producing entity” (*Managing for the future*, 1992, p. 297). In his view, the European (and Japanese) stakeholder model forces the institutional owners to support “a management regardless of short term results as long as the company performs to a business plan that is designed to maximize the enterprise’s wealth-producing capacity” (1992, p. 246).

There are advantages and disadvantages in both structural layouts of corporate governance. But on both sides of the Atlantic, the ethical dimension remains the same: Accountability is foremost, and “Corporate Citizenship”, as well as “Corporate Social Responsibility”, though first coined by US corporations, have become a commitment in Europe. Going even further, some European countries, e.g. Italy and Austria, have established ambitious legal frameworks for corporate criminal responsibility (Hefendehl 2001) and have thus copied the US model of sanctioning corporate crime. The U.S. Federal Sanctioning Guidelines of 1991, apart from setting rules for federal judges, have also spurred the divulgement of corporate guidelines and standards on compliance, both legal and ethical. Drucker supports this premise and prefers the law over self-regulation when it comes to eliminating negative impacts of business on society (2008, p. 215). Thus we are finding the influence of U.S. law on businesses around the world (as they have to comply whenever their products or services or share listings touch US soil), and the reference to US law is becoming widespread. This is witnessed by the systems and procedures for internal control and the compliance and risk management practices, which have become universal with global application of the COSO model (COSO = Committee of Sponsoring Organizations of the Treadway Commission on Corporate Governance).

With respect to the responsibility of directors and of the corporation, Drucker’s views have been very explicit right from the start. For him, these were social responsibilities. Only an unwilling critic will neglect that Drucker’s arguments on this topic are such that one might primarily attribute them to later business ethics theorists or corporate social responsibility theorists. In his 1954 book “*The Practice of Management*”, already, he clearly advocates the “social institution” view of corporations (e.g., p.

381). In his further writings, he has sharpened his views on the impact of corporate leaders on society, (see our section “Leadership”, below).

Managing for Compliance and Integrity

Being accountable and being responsible implies that officers on all levels of the corporation are not only able to account but also required to render accounts. Drucker has preached this over 40 years: “... this means that ... accountability must be institutionally anchored. For Drucker, it also means that management must be accountable for *performance* and *results* rather than for good intentions ... even though everyone knows that performance and results go way beyond the financial bottom line“ (Managing for the future, 1992, p. 246). In this sense, accountability is part of the normative social order of any community or institution. Corporate governance must provide an appropriate framework of reporting routines, systematic assessment and approval procedures etc., and the moral significance of accounting practice must be upheld and regained, not least because of the prominent role that accounting representations have played in recent corporate scandals. Beyond management accounting, financial accounting and financial auditing (where substantial reforms are under way with the Sarbanes-Oxley Act and with the 8th European Directive that governs the audit profession), reporting and auditing on ethical and social issues is becoming mandatory in the global environment. One background is the negative attention attracted through consumers, media and non-governmental organizations on, e.g. apparel distributors such as Nike, Levi Strauss, Benetton, Adidas or C&A (Preuss 2001) for questionable procurement and production practices. Another background is the efforts of innumerable institutions establishing internationally accepted standards such as SA 8000, AA 1000 and the Global Reporting Initiative (GRI):

- SA 8000 was founded in 1997 and is now under the control of Social Accountability International (SAI; www.accountability.org.uk). It is a global, verifiable standard for managing, auditing and certifying compliance with workplace issues, and companies may seek certification through an accredited authorization auditor.
- AA 1000 was created by the Institute for Social and Ethical AccountAbility (www.accountability21.net) and its main goal is so-called “stakeholder engagement”. The engagement of stakeholders enables AA 1000 to build confidence and give legitimacy for a good reputation by projecting a defined stance on social and ethical issues.
- GRI is a multi-stakeholder governed institution providing global standards in sustainability reporting and special alignment with the UN Global Compact Principles on Human Rights, Community Impact, Climate Change etc. (www.globalreporting.org).

The three sets of standards are very different in their respective inherent logic, and adherence to either SA 8000 or AA 1000 largely depends on the willingness to participate in the audit and certification processes. Information on SA 8000 and AA 1000 compliance is not available publicly. However, GRI is linked to the Corporate Register Database (www.corporateregister.com), which can be freely accessed and which as today provides 18880 Corporate Social Responsibility reports across more than 4800 companies.

The evolution of the standards, especially SA 8000, may serve to demonstrate that norms will only be generally accepted if all affected stakeholders (and also those who will be held accountable further on) were involved in their elaboration. To this, Drucker would have added an additional perspective: He always asked for standards to be not only developed but also applied in alignment with accountability. One example he uses is that of statistical quality control (SQC) which, when linked to accountabilities, may solve the conflict between strict Taylorism and job enrichment practices in manufacturing (1992, pp. 303 ff.). This accountability perspective provides the close link, as mentioned before, to Discourse Ethics. Discourse Ethics was developed by the “Frankfurt School of Philosophy”, especially by J. Habermas, a “second generation” member of that school. Drucker never referenced to the Frankfurt School of Philosophy with regard to Discourse Ethics. The reason may be that he despised Marcuse, the eminent “first generation” member of the school, because of his “soothsayer’s” predicaments on the economic disinterest of the younger generation” (Innovation and Entrepreneurship, 1985, p. 14). But he was definitely very much in favor of discourse, he was worried about the communications gap between the partners and the layers of industrial society (The New Society, 1949, p. 191 ff.), and he

was a vivid advocate of pluralism (e.g. in *The Age of Discontinuity*, 1969, pp. 171 ff.). In his opinion, what business leaders should contribute to that discourse, would have to come from the inside: E.g., in the text “*The Practice of Management*” (1954), Drucker stated that the “management’s public responsibility tends...to begin with the consideration of management as a leading group in society. But properly it should begin with management’s responsibility to the enterprise of which it is an organ” (1954, p. 383). Drucker goes on to state in the text “*New Realities*” that when evoking the social responsibility of any institution, “the first question has to be: Will it impair the institution ability to perform?” (1989, p. 87).

The maxim of Discourse Ethics has been spelled out above: “A norm is valid when its foreseeable consequences ... could be jointly accepted by all concerned without coercion”, and “only those norms can claim validity that could meet with the acceptance of all concerned in practical discourse” (Habermas 1999). This principle has come a long way from the observation that capitalism cannot be read as a “drama of class conflict”. In consequence, class antagonism between (capital) owners and workers have become so obscured that few show signs of leading to serious confrontation (Habermas 1970). This would go far beyond just “class conflicts” – in the end, according to Thomas McCarthy, Habermas’ frequent translator, this “*Theory of Communicative Action*” leads to a “self-regulated organization of society” (McCarthy 1978). All members of the society, all stakeholders, would have to partake in this self-regulation.

The authors of this paper do not attempt a learned philosophical exegesis of Discourse Ethics. For this, the reader may be referred to H. A. Doughty’s review “*Juergen Habermas’ Concept of Universal Pragmatics: A Practical Approach to Ethics and Innovation*” (2003). It makes one wonder, however, that Doughty turns out to be the fiercest critic of Drucker’s – calling him a “nonagenarian neophilic”, whose philosophy of business innovation is only committed ... “to the downsizing of employee rosters and the re-engineering of the working lives of those fortunate enough to keep their jobs” (Doughty 2003, p. 18). This seems narrow-minded and short-sighted, to say the least: When on the one hand, Doughty lauds Habermas for offering “a method for reconciling differences” and for helping “to show how to critique those who are unwilling to cooperate (Doughty 2003, p. 27), where, on the other hand, is his analysis of Drucker’s pragmatic approach to social interests, social responsibility and integrity of behavior? Doughty does not oppose Habermas admission of “the likelihood that commonly understood means almost inevitably imply predetermined ends” (Doughty 2003, p. 18), but why does he not connect this to Drucker’s ever lasting concern that “an organization ethic ... will have to ... optimize each party’s benefits and thus makes a relationship harmonious, constructive and mutually beneficial (Drucker in his final note to “*The Changing World of the Executive*”, 1982, p. 256)? The authors of this paper think that the concept of “*Universal Pragmatics*” and the notion of a “*Practical Approach to Ethics*” is much more applicable to Drucker’s oeuvre than to the work of many sociologists.

Returning to the example of SA 8000, even though it may be argued that not each and every of potential stakeholders were involved in the making of SA 8000, SAI’s intention clearly is to include all argumentation. The ongoing process of SA 8000 amendments will also improve the formal design of dialogues (SA 8000 explicitly asks for stakeholder discourses). And it could further shift the idea of the goal of communication from the result, as in traditional discourse theory (a Germanic feature), to the process itself (an American feature). This would promote the concept of an ongoing moral conversation. This was pointed out by the US-based philosopher Seyla Benhabib who also criticizes that, traditionally, there is a sharp distinction between matters of justice and matters of the good life, and only the former is placed in the realm of ethics. Her expansion of the traditional idea has led to the inclusion of questions and experiences belonging to the private sphere into the moral and political domain – a development that will definitely promote the range of social accounting (Benhabib 2004).

The ethical contextualization of business relations

The focus on governance and compliance is primordial, because oversee, governance and culture influence decision-making on all levels. Towards the outside of the corporation, ethical or non-ethical behavior becomes manifest in the contexts of business relations:

- How does the corporation, how do their officers treat its constituencies (or “stakeholders”) - customers, consumers, suppliers and service partners, its contractors and employees?
- Are there differences in this between the US and Europe?
- Does it matter that the central emphasis on ethics subjects tends to be individual actors in the US, whereas in Europe there is a more “pluralistic” view and hence more interest in institutions (Crane, Matter 2004)?

The contexts that will be examined are customer/consumer relations, competitor and supplier relations, employee relations, leadership, and government relations.

The relation to customers/consumers

All links and activities between buyers and vendors are configured through responsibilities that are based on generally accepted values: Autonomy, Freedom, Justice, Trust, Truth and Well-Being are constitutive of a marketing ethics (Brenkert 2008). However, these values are not unique to marketing, because they also relate to other areas of life. Drucker in his writings over the years addressed directly or indirectly these values and the importance of the customer in any organization. When used in marketing, these values are integral to decisions regarding product development, advertising, market research etc. It is certainly here that morality comes onto the scene, and when Drucker criticized the use of business ethics as a “cloak” for moral criticism against entrepreneurs, he certainly had these moral issues in mind (Innovation and Entrepreneurship, 1985)

Another issue which Drucker linked to morality is quality, and he addressed “quality” from two angles: one is continuous process improvement, the other one is delivering value to the customer (“The new challenge of productivity”, Harvard Business Review, June 1991, pp. 69 – 79). For him, both are not only a philosophy but they are also a set of tools that are employed to bring the desired results. However, he did not favor “how to tools”, because they are often disconnected from the basic rationale of continuous improvement (“The Theory of Business, Harvard Business Review May 1994, p. 95). This rationale and the need for quality were so obvious for Drucker, some analysts of his work feel, that he did not explicitly include quality management in his approach to delivering value (Bowman and Wittmer, 2000, p. 24). For Drucker, quality in a product or service is not what the supplier puts in. It is what the customer gets out and is willing to pay for. A product is not quality because it is hard to make and costs a lot of money, as manufacturers typically believe. For Drucker, customers pay only for what is of use to them and gives them value. Nothing else constitutes quality (quotations by Authors; Peter Drucker; http://www.quotationspage.com/quotes/Peter_Drucker, retrieved June 14, 2009).

Delivering value – and quality – to the customer is definitely involved with tools of marketing like advertising and consumer research, and the use of these tools can eventually get immoral and offer ample opportunities for the display of unethical activities (Vitell and Grove, 1987, p. 433). For example, the use of “sex and fear” in advertising and of deceptive practices rightly is a target of moral criticism on both sides of the Atlantic. However, there are various “shades of darkness”, and the practices differ: In the US, comparative advertising is legal, which it is not in the European Union, whilst the tactic of “bait and switch” (making people believe that a certain product is available and then offer them an other, more expensive alternative) is illegal in the US, but it is not prohibited by law in Europe. Deceptive pricing by “no frills airlines” has been criticized by advertising-watchdogs all along, but an EU regulation came up only recently. This is also due to data problems and the lack of European-wide information systems in this area. Non-governmental initiatives use much more information economics here. An US example is “Consumer Fraud Reporting“, an online service that warns consumers about specific types of financial scams via the Internet (www.consumerfraudreporting.org).

In the US as well as in Europe, the legal framework on pricing and market exchange was largely predicated on the notion of “caveat emptor”, or buyer beware, even though the historic foundation of “fair dealing” in the US stems from the “Federal Trade Commission Act” which was created in 1914. From there, protection of consumer rights which erodes the notion of “buyer beware” developed much faster in the US (e.g. with the 1975 Consumer Goods Pricing Act) than in Europe. EU regulations as well as national legal frameworks that enshrine the right to safe and efficacious products and to

truthful measurements and labeling are worded in very general terms and national laws in Europe differ substantially from each other. So, business ethics very often must begin where the law ends.

With regard to pricing, Drucker advocated that prices should neither reap “premiums” nor “what the market will bear” (Managing in a Time of Great Change, 1995, p. 46), that it should encompass the whole range of quality considerations bringing value to the customer, such as „durability, freedom from breakdown, the maker’s standing, purity, etc.“ (The Practice of Management, 1954, p. 55), and that account must be taken of what serves the purpose of the customer – „creating utility“ is foremost (Innovation and Entrepreneurship, 1985, p. 245). But there will always be gray areas; if we take the example of “healthy food” and “effectual cosmetics”, we are very clearly into consumer vulnerability, and this is where the principles of Trust, Truth and Well-Being should and must govern. As of 2004, the American Marketing Association (AMA) has adopted a “Statement of Ethical Norms and Values for Marketers” which states those and other principles (AMA 2004). Similarly, the European Marketing Confederation (EMC) has issued a Code of Conduct (EMC 2005). These codes might work and bring the desired effects, because both of them expulse individuals who are found not to have abided by the code – a type of sanction that may be deemed to be severe. Again, in the US, severe punishment is much more drastic than in Europe when consumer fraud is taken to court: Applying the 1991 US Federal Sentencing Guidelines, Acme Corporation was sentenced by US court to pay a fine of four times the loss suffered by its customers who were systematically overcharged for damages occurred during the rent of automobiles (HBR 2003).

A field where a Code of Conduct is successfully employed is market research. When Drucker wrote “Managing for Results” in 1964, there was a need to instigate businesses to go even further and to deploy marketing analysis (1964, p. 110). Some practices that were developed in the years after Drucker wrote this statement certainly went close to what can be regarded illegal and unethical. Since legal provisions are definitely different from one country to another and their reach ends at a country’s border, a common understanding can be helpful. The Code of the Market Research Society (MRS), with members in more than 70 countries, is intended to reassure the general public and other interested parties that research is carried out in a professional and ethical manner (<http://www.mrs.org.uk/standards/codeconduct.htm>). But here, again, we find a transatlantic divide: When it comes to covert research, especially in engaged public observation where a researcher talks to people without revealing who she or he is, the US attitude towards privacy protection makes it more likely for this method to be applied. The method is deemed to be justifiable if it does not produce „unnecessary harm to subjects“ (Denzin and Erikson 1982). A case that has made history is that of Toyota in its early US campaigns, when the company used its employees to make friends with potential buyers to learn about their attitudes and preferences. Again it was Drucker who was very much in favor of an organization’s attempt to obtain as much data on customers and non-customers as possible. In one of his earliest works, “Concept of the Corporation”, written in 1946, he encourages thorough customer research, and he quotes the example of General Motors which use their dealership to channel market knowledge into the corporation (1946, pp. 93 f.).

Market research has received new inputs through web-based data collection: Some argue that the explosion in communications technologies has created an *ethical minefield* for individuals and companies (Mitchell 2003). Surely the technology allows the individual to become “invisible” on the Web, or to misuse e-mail and Web-surfing or to illegally copy software, and there is the big question what corporations should do about these abuses all over the world (the answer would be a “matter of degree”). But when it comes to abuses produced by businesses, there is a clear divide on what is “material”: The EU Directive on Data Protection limits the secondary use of personal information collected from consumers to a very great extent. By contrast, the US is leaning towards industry self-regulation, while Europe may pay a heavy fine for its obsession with over-protecting privacy by laws and ordinances. Already severely behind in technology, further restrictions on the growth of the Internet may see technological companies bypass European venues. This has already been anticipated by Drucker who argued that excessive privacy protection will harm the European economies because it prevents the linkages between “high-tech”, “middle-tech”, low-tech” and “no-tech” (Innovation and Entrepreneurship, 1985, p. 256).

The relation to competitors

There is a wide continuum between conflict and collaboration in competitive behavior. One issue, recognized by Drucker, is the growing interdependence of organizations with the positive effect that one organization may use the others as agents for the accomplishment of its own tasks (The Age of Discontinuity, 1968, p. 179). On the negative end, competition and especially marketing can be seen “as a game, as a war or a social practice” (Kotler 2000), and ethical issues in dealing with competitors can either relate to aggressiveness or to elimination of the competitive market. Overly aggressive competition will lead to questionable tactics in intelligence gathering, from the clearly illegal patterns of espionage to the more subtle ways of spying. Beyond the competitive intelligence issues, overly aggressive may apply “dirty tricks” that include negative advertising, stealing customers, predatory pricing and even sabotage. In the US, it was only recently that a case has surfaced which involved Coca-Cola employees who tried to sell the Coke formula to Pepsi Cola (www.boingboing.net/2006/07/05). But much more cases became known in Europe: Allegations of industrial espionage were versed against Procter & Gamble in 2001. In the P & G case, the company had hired private investigators to find out more about Unilever’s hair care business (Financial Times, 31. Aug. 2001). Another example involves, Canal Plus, where an encryption service company of the French media conglomerate Vivendi, claimed that NDS, a UK-based technology firm 80 % owned by Rupert Murdoch’s News Corporation, had deliberately cracked their security technology, and then it had sent it to hackers in the USA (The Independent, 01. Oct. 2002).

Aggressive behavior would also encompass illegal copying of intellectual property rights (IPR). Again, the likelihood of a universal codification of IPR protection is poor (as was shown for privacy protection), because there are different traditions: In Continental Europe, the moral rights of authors are emphasized. The Anglo-American tradition emphasizes economic rights, and the

Asian tradition considers copying as a matter of emulation of the master. Still, the WTO’s Agreement on Trade-Related Aspects of Intellectual Property Rights (TRIPS) is a very powerful instrument, but it refers to inter-governmental relations. At least it enables IPR-owners to take action: Microsoft recently reported a major Egyptian IT company to the local Department of Investigation and Protection of Intellectual Property Rights, a task force run by the Ministry of Interior. The company, which has its headquarters in Nasr City, has been working against the law by installing counterfeit Microsoft Windows and Microsoft Office on the computers it sells. (The Daily Source; Egypt’s Smart Village wants to be regional IT Hub, December 3, 2003).

The opposite of aggressive competition is collusion and cartels. It is with Drucker’s ethical stance on cartels that he first uses the notion of “casuist” view: “A casuist would agree that cartels are both illegal and considered criminal in the United States – although not necessarily anyplace else in the world. But he would also argue that the General Electric executive who violated U.S. law had an ethical duty to do so under the higher law of social responsibility to safeguard ...employment ...” (1982, p. 243). Still, Drucker warns that the casuist proposition of business ethics would end up in defending “as ethical acts on the part of business executives that would be condemned if committed by anyone else” (1982, p. 244). This is where Drucker thinks that strict laws would have a heavier effect. It really seems that the long history of antitrust-law in the US (the Sherman Antitrust Act came into force in 1890) prevents US managers from price fixing through multi-firm conduct and concerted action much more effectively than European law does. US courts see multi-firm conduct to have an unambiguously negative effect and judge it more sternly, while the disposition in Europe may be termed to more repugnant to the abuse of a dominant position. E.g., the European Commission is incessantly investigating into Microsoft’s bundling of its Media Player software with Windows, while the claim that the big four mobile phone companies were overcharging consumers in the UK has not yet been taken up by the UK Competition Commission. In 1999, the world's three biggest vitamin makers, German BASF, Swiss Roche and French Rhône-Poulenc were charged by the US Justice Department for engaging in a massive price-fixing conspiracy long before the European courts took up the matter. (Wall Street Journal, May 21, 1999: “Vitamin Firms settle US Charges Agree to Pay \$725m in Fines”).

In regard to competitor relations, Drucker's answer to ethical concerns would be the concept of the "interdependence" of organizations (1968, p 178). He said that: "virtually all the concerns of business ethics...have to do with relationships of interdependence...The (Confucian) ethics of interdependence...demands equality of obligations (The Changing World of the Executive, 1982, p 251). In the future, he says, "businesses will integrate themselves into the world economy through alliances...minority participations, joint ventures, research and marketing consortia, partnerships in subsidiaries or in special projects, cross-licensing, and so on" (1992, p 16). And from his early writings, he would always point to the fact that a customer relation may end up in a competitor relation (Craig-Smith, 2009). Vice versa, a competitor relation might end up in a supplier relation, so "sincere conduct", i.e. conducting oneself in ways that will "optimize benefits for both parties" and "in conformance with the norms of civil society" must become the "guiding principle" (Drucker, "What is 'business ethics'?", in: The Public Interest, 1981, p. 30).

The supplier relation

Ethical issues in dealing with suppliers arise on the organizational level (misuse of market power, unfair treatment, unfair advantage) and on the individual level (giving and acceptance of gifts, bribes, hospitality and other inducements). On the organizational level, although industry seems to move away from the traditional adversarial relationship towards its vendors (due in part to the influence of Japanese business where partnership-based approaches prevail), in retail, unfair treatment happens more often than not. For example, in the highly competitive German foods market, the market leader ALDI earned a very negative reputation when it used its market power in 2007/8 to force milk-producers into accepting a heavy price decrease. Similarly, the British high street retailer Marks & Spencer suddenly dropped one of its long-term UK clothing suppliers, William Baird textiles group, in 1999, thereby ending a thirty-year business relationship. Baird had to close sixteen factories and lay off 4500 workers (The Daily Telegraph, 02. Aug. 2001). Suppliers should legitimately be able to expect loyalty – the specific dealings will have to show what an obligation of loyalty really has to entail.

Again, as with regard to competitor relations, Drucker's reference to the (Confucian) ethics of interdependence might also apply here. It may be said that Confucian ethics underlie most of Drucker's writings and that he viewed Confucianism to be the most appropriate ethical approach applicable to organizations (Romar, 2004, p. 200). Confucianism elates proper and effective behavior and is based on the virtues of responsibility, trust and integrity, which are all the ingredients of a supplier-customer relationship. It is no wonder that the notable participation extended by the Japanese car manufacturers to their suppliers in many of their decision-making processes formed the success of this industry. This industry has "lived" the Confucian concept of harmony, while this may not be said about the US and European car industry. Early on, Drucker foresaw that his might be one reason why the US car industry could fail. So he said on GM: "The major lesson we can learn from ...GM is that an institution, like an individual, is not an island to itself. It has to solve the basic problem of balancing the need for concentration and for self-limitation with concern for its environment and compassion for its community" (New epilogue to: Concept of the Corporation, 1972).

On the individual level of supplier-customer relations, the big topic in ethics is not just gifts, gratuities, bribes, kickbacks, bungs, sweeteners etc., but also business-supplier negotiation. An ethical approach to negotiation should steer clear of tactics like puffery, weakening the opponent, non-disclosure, distraction and the like. This is not only, because it is the right thing to do, but because such practices can incur costs for the negotiator (costs of rigidity, of lost opportunities, etc.). In all, unethical decision making in this context can very well be limited by limiting opportunities. Opportunities arise from conditions that either provide rewards for or fail to erect barriers against unethical behavior. Opportunity also comes from knowledge: Withholding information or lying to vendors (as well as to customers or employees) is the most common type of misconduct observed in the National Business Ethics Survey (NBES) conducted in the US (The Ethics Resource Center 2000). One remedy lies with information economics: reporting on negotiations, tracing the access to and the use (and misuse) of data will provide solution, as will proper training and socializing newer employees to abide by the rules and norms and the culture of the organization. Drucker always asked top management to make sure that the effective behavior "as it develops out of the organization's own

culture” is actually being practiced (Managing for the Future, 1992, p. 153), and that it is committed to moral values (The New Realities, 1989, p. 238).

An issue which pertains to the purchase function but which entails the entire corporation is “Socially Responsible Buying” / “Green Procurement”, i.e. the selection of suppliers that adhere to social standards and of products and services that minimize environmental impacts. Drucker, classifying himself as a social ecologist, would view these two goals as a help to promote *continuity* in the conserving foundations of society while advancing *change* in the inherently destabilizing institutions of a free society, especially in those practicing exploitation (Maciariello, 2005). And he would have had this encompassed in what he termed “leadership beyond the wall” (2008, p. 225). Somehow, this type of leadership seems to be deployed in the US more frequently than in Europe, where only a few industries like the chemical and textile businesses perform „sustainable purchase“, US buyers, at government institutions and private enterprises, have developed a reputable record in this field across all industries. An example is IBM, which has converted the need to comply with dozens of environmental regulations into a forward strategy. IBM’s „Green Strategy“ is proactive in limiting the materials it uses in its electronics, and from there it provides environmentally conscious products to its customers, „not from an altruistic standpoint but from a dollars and cents standpoint“, because the customers’ purchase agents prefer „green products“, too (www.ibm.com: „Big Blue Goes Green”).

The employees relation

Drucker’s position on human resources has been very pronounced from the outset: It is “people, not employees” (“The New Society”, 1950, p. 111), it is about “employing the whole man” (“The Practice of Management”, 1954, pp. 262-272). His reflections on the topic started even earlier: In his 1995 text, “Managing in a Time of Great Change,” Drucker cites his earlier book, the Future of Industrial Man (1942) and says: “What is now called “empowerment” is very similar to the things I talked about more than fifty years ago...I argued then that the new organization ... would have to be the community in which the individual would find status and function...” (1995, pp 253). He spoke of “equal opportunity” and of the need for the corporation to offer advancement to its employees as early as in 1947 (Big Business, 1947, p. 143), and of “combining responsibility to the individual beneficiary with responsibility to society” in 1957 (“America’s Next Twenty Years, 1957, p. 45). And he considered the “ability of the organization to provide useful work to individuals” to be “an important social responsibility” (“Management. Tasks, Responsibilities, Practices”, 1974, p. 187). Drucker believed that employees are assets and not liabilities; he said. “they expect and demand that their works and their jobs should be meaningful” (1995, p. 343). Central to Drucker’s philosophy is the view that people are an organization’s most valuable resource and that a manager’s job is to prepare and free people to perform (Drucker, P.F. Collins, J., Kotler, P., Kouzes, J.I., Rodin, J., Rangan, V.K., et al.: “The Five Most Important Questions You will Ever Ask About your Organization”, 2008, p. xix).

Drucker was ambiguous on the participation of employees and their representatives in corporate decision-making, which is much wider practiced in Europe than in the US. Apart from the legal background, this is based on the European attitude of consensualism, and, therefore, employees’ rights and duties may be interpreted somewhat differently in the US and in Europe. While the basic rights to freedom from discrimination, to fair wages, to healthy and safe working conditions etc. will be applied similarly, the rights to privacy and to due process (promotion, firing, disciplinary proceedings) are more limited in the US as compared to Europe. This has a downside: Performance monitoring in German corporations often is viewed as “spying on the employees”, and one big retailer was recently taken to court on this matter (there was a recent case in German which involved retail giant LIDL). Likewise, co-determination on the board level mixes employee duties (complying with labor contract, respecting the employers’ property and values) with the duties, which a board member, who represents a trade union, feels towards this union. In consequence, the other board members might deem it necessary to find out if such an attitude provokes the breach of secrecy. Deutsche Telekom did not see another way out from this dilemma than “spying on employees” (www.unwiredview.com, 2008/05/26).

An example of spying on employees that gained international attention involved Boeing Aircrafts,

when as an ultimate resort, in November 2007, a whistleblower was charged with 16 counts of computer trespass for allegedly stealing 320,000 company files and giving some of them to the *Seattle Times* to document flaws in the company's inspection process for one of its new planes. The company estimated that the stolen data could have cost the company between \$5 billion and \$15 billion if the information got into the wrong hands. Boeing set out to restore security to ferret out that type of „whistleblowers“ by videotaping workers and reading their e-mail (SEATTLE POST, Nov. 16, 2007). When, according to a statistic reported in the Financial Times of May 11, 2009, an average of 7 per cent of their revenues (\$994bn) was lost by U.S. organizations in 2008, appropriate means of covert control must be installed. Drucker felt that whistle-blowing might sound high-minded, but that, in the context of (Confucian) ethics of interdependence, it would be ethically ambiguous because it jeopardizes the mutual obligation between a subordinate and his or her superior (1982, pp. 252 – 253). On the other end, when employees raise concerns about work-related issues which are not taken up adequately, they face a plight: Should they “loyally” accept the situation, or should they blow the whistle? The vast majority of whistle-blowing cases are resolved within the chain of command and with the help of human resource management officers (Treviño and Nelson 2004). Going to the board or outside the company would only be the last step, but it must be looked at as a part of the system, because, as Drucker would also have argued, “democratic capitalism requires that people trust in the integrity of public and private institutions alike” (Time Magazine of December 22, 2002, naming the Enron and WorldCom whistleblowers “Persons of the Year.”).

Government relations

Government has a relation with business where both partners are mutually dependent on each other. For government, the main ethical issue here lies in the necessity of carrying out the mandate it has been given by society, and one aspect of this of course is both the constraint and enabling of business. Subsequently, business is entitled to rely on agreements and guarantees issued by governments, and especially by the preceding ones when governments change after an election (all lobbying has its source from that context). While in the US there are more person-to-person contacts (and hence more personal conflicts), the lobbying scenario in Europe is characterized by collective action through business affiliations and associations. Both ways might end up in people occupying a dual role in business and politics at the same time, and if handled professionally, that role could benefit both constituencies. Drucker was in favor of this type of (intensive) interchange, but he disliked the idea that this might end up in a “*government by countervailing lobbyists*” (“Managing in a Time of Great Change”, 1995, p. 271). Lobbying on the one hand and having business people on government committees on the other, is pretty much legal all across Europe and the US, although some of it may be in the gray area of business ethics. For that, non-government organizations and other watchdogs should be included in data sharing and reports. Drucker, favoring that discourse, emphasized the ability of the “Third Sector” to direct its activities to a single objective and to break down “hard problems” into several “easy problems” (“The New Meaning of Corporate Social Responsibility”, in: California Management Review, 1984, p. 58). He “was saying that the nonprofit sector is the equal partner of business and government when most people saw it as a junior partner” (Hesselbein 2006). If the checks and balances provided by the nonprofit sector are not in place, business will be led to buy an influence on regulation, from “state capture” to outright corruption. Again, there are many means to combat corruption, starting with the UN Convention against Corruption and reaching to national and private institutions like the UK Fraud Advisory Panel, the „Bribe Payers Index“, Transparency International etc., all supported by broad data interchange.

Another subject that has many shades of “gray” is tax evasion. For the sake of conciseness, it will not be covered here. However, for Drucker, an organization’s responsibility towards society would rule out any wrongdoing in tax matters (Concept of the Corporation, rev. ed. 1972, pp. 468), and he often said that tax and fiscal policies are “needed to encourage entrepreneurship”(“Innovation and Entrepreneurship”, 1985, p. 265).

Leadership

One of Drucker’s contributions to the debate whether leaders also have to manage or just “lead” is

given by his remark, that “the very best leaders are first and foremost effective managers” and that “those who seek to lead but fail to manage will become either irrelevant or dangerous, not only to their organizations, but to society” (Jim Collins: *Forward to Management*, December 2007). Effectiveness and responsibility, according to Drucker, motivates the impact of (corporate) leaders on society (2008, pp. 213 ff.). Behind this, there are the ethical values, which form a leader. But does it work the other way round, too? Can we still uphold that leadership can produce values? Isn't it rather the business environments that generate, spread and modify values, so the outcome is different for different business conditions? Or better said, can leadership just secure that values are observed and adhered to when making decisions?

Drucker said that “leadership is not by itself good or desirable. Leadership is a means (1992, p 119)...the foundation of effective leadership is thinking through the organization's mission, defining it and establishing it, clearly and visibly (1992, p 121). He further stated that tomorrow's leader would not be able to lead by charisma. He or she will need to think through the fundamentals so that other people can work productively. Increasingly, a CEO's job will be much more like the most complex. Drucker goes on to say that in business, almost like a fine tune orchestra, you have to make sure that all the various groups converge to produce the desired results. It's not about refraining from giving orders – but knowing when to give an order and when to treat someone like a partner (2002, p 89-90). For Drucker, a leader should see “leadership as a responsibility rather than a rank and privilege (Drucker, 1992, p 121). This certainly is where the Confucian ethics come in again. Confucianism is a theory of moral leadership where an individual cannot become a complete person without living a moral life, and where, furthermore, the leadership of the moral person is critical to organizational and social success. What the executives must do, according to Drucker, is to ask “What can I contribute?”. Those who do not, “are not only likely to aim too low, they are likely to aim at the wrong things ... The executive who sets his sights on contribution raises the sights and standards of everyone with whom he works” (*The Effective Executive*, pp. 54, 56). To this, Drucker adds, that a leader / manager regardless of location in the hierarchy, obtains the legitimacy to exercise power and authority. Drucker goes on to say: “Whoever assumes responsibility, asserts authority. Conversely, one is responsible for whatever one has authority over...The question therefore, is not what the “social responsibilities” of organizations are. The question is what is the proper authority” (1968, p. 201).

Authority, as defined by Drucker, is about “establishing the specific purpose and mission of the institution, whether business enterprise, hospital, or university; making work productive and the worker effective; and managing social impacts and social responsibilities” (Drucker, 2001, p. 14). This has nothing to do with authoritarian style of leadership for which U.S. managers have been criticized. As stated above, the reproach to U.S. leaders for being “ethnocentric” and biased to assume their value system is best (Hofstede 2000), is to be overruled by recent research (Bond 2002): It has been shown that U.S. businesses are highly characterized by an egalitarian commitment (Schwartz 1994, Smith et al. 1996), even though they mostly have a command and control orientation with a top-down management approach. As for Drucker, he favored top-down management if ever managers would “build the employee into the power structure and control of the enterprise” – which he termed “citizenship”, not “democracy”, because he would regard “participative management” to often be “only a futile attempt to disguise the reality of employee impotence” (*Managing in Turbulent Times*, 1980 pp. 190, 193).

While the top-down-orientation may promote the view that employees be used instrumentally towards the objective of the organization's executive to “create wealth,” the conceptualization of 'egalitarian commitment,' has modified and 'softened' American instrumentalism. On the other hand, European leaders will often try to avoid uncertainties related with leadership change by “depersonalizing” management. Drucker would oppose this line of thinking. He stated “Whether you like it not, managers are not private...they are visible” (*Technology Management and Society*, 1958, p. 94). He would agree with Yukl who said that “depersonalizing management” means establishing a set of “substitute variables” (Yukl 1994) such as high professional orientation, high coherence within teams, intrinsically satisfying tasks of subordinates, etc., to eliminate “adverse effects of leadership”. But at the same time, the subordinates will set up their own “substitute variables” (Harzing 1999, Petersen 1993) which then will provoke rigidity. This is more pronounced in European companies, as has been

shown by a topical study (Hewitt-Dundas 1997). At least, the functional flexibility is higher in U.S. management. Thus, U.S. managers might easier find effective solutions to (functional) conflicts in multiculturalist environments (Ravlin, Thomas and Ilsev 2000). There is another contrast between U.S. and European practice of which Drucker was certainly aware (“*Trade Lessons from the World Economy*“, in: *Managing in a Time of Great Change*, 1995, ppp. 143 fff.): U.S. world class organizations have increasingly become convinced that local differentiation and recognition of cultural differences are important to success and, if properly adapted, this awareness will make them even more competitive (Luthans and Hodgets, 1996). In the opposite, and paradoxically to what has been said about Europeans having an advantage as they evolved from a cultural mosaic, many leaders of European corporations seem to lack a similar awareness: This may be derived from recent updates of the GLOBE study, in which approximately 170 social scientists from 61 countries are examining the impact of cultural variables on organizational values and practices, and their effectiveness (Javidan and House, 2001).

The positive picture of US leadership traits has been radically changed by the Enron catastrophe, and the simultaneous scandals at Worldcom, Tyco, to name a few. This has served to radically change public and business expectations of corporate accountability and the ethics of the corporate leaders (Hasson 2002, Roberts 2002, Verschoor 2006). This would also relate to the issue of excessive CEO compensation. For many years the CEOs of the U.S. when compared to their European counterparts made dramatically more in compensation and earnings. Throughout the 1990’s, U.S. CEOs’ executive packages soared, and many executives won guarantees of big rewards whether or not their businesses succeeded. For example, the chief executive of a Standard & Poor’s 500 company made, on average, \$14.2 million in total compensation in 2007, according to preliminary data from The Corporate Library (www.aflcio.org/corporatewatch/paywatch). In the early part of this decade, European CEOs started to demand greater salaries and compensation packages. However, recent ethical scandals on both sides of the Atlantic as well as the financial crisis have lead to public outcry against CEO salaries. Excessive executive compensation has become unacceptable as the public became aware of the large severance packages given to CEOs of companies at the center of the mortgage crisis. It is here that Drucker’s “*primum non nocere*”-principle which he took from the Hippocratic oath (see, e.g. Drucker with Maciariello 2008, p. 222) and which he says is the basic rule of professional ethics, is violated the most. Managers are doing harm knowingly and they “tend to cause social disruption” if they impose “golden fetters” (on themselves and on other people in the company’s employ, he said as early as in 1973 in his work “*Management: Tasks, Responsibilities, Practices*” (1974, p. 369).

Drucker famously argued in 1984, that a CEO should not make more than 20 times the salary of the lowest paid worker (Byrne, *Business Week*, Nov 28, 2005, p. 99), and he referred to the “internal logic of a hierarchical structure” where it is believed that “each level above the foreman has to get at least 40 percent more ...” (1982, pp. 21 ff.). Drucker goes on to say that as a CEO you treat people decently, if you allow their full potential to flower, and if you don’t dash their morale by making deals with Wall Street to give you golden parachutes and the like, and you show that you’re committed to the business, then your employees will give you good work and good advice for the running of the company. He went on to say that they (employees) are going to work better than they otherwise would and the whole place will have a different feeling....he is telling these CEOs...your high salaries are not only a social crime...they’re also an economic crime (Jack Beatty: “*The Author of Modernity*”. *Atlantic Monthly*, January 1998).

Projecting his thoughts into the future, Drucker noted that the information-based organization needs far fewer levels of management than the traditional command-and-control center model...business tomorrow will follow two new rules; one, to move work to where the people are, rather than people to where the work is, and two, to farm out activities that do not offer opportunities for advancement into fairly senior management and professional positions...the corporation, in stock market jargon, will be unbundled (1992, pp. 18-19). This would certainly have an effect on CEO compensation.

Summary and Implications

Society and businesses, the everlasting subject of the work not only of Drucker’s but also of a myriad of other scholars, practitioners and politicians, have been changed through the work of these leaders

and writers, and society and businesses will continue to transform into new manifestations. This also applies to the role and the functions of management: managers will more openly and more effectively join forces with all other stakeholders in value creation. Drucker has called this “social responsibility” because he did not favor the term “business ethics” - in his opinion the search for norms that are universally applicable may lead to generalization and legal provisions could do a better job. Otherwise, he was very determined about personal integrity on an individual level in all corporate activities and relationships. He felt that guidance and standards for this purpose could best be derived from Confucian ethics. Thus, as our paper shows, the areas of business which require the most ethical behavior and, in part, ethical standards, have all been brought into context with social responsibility by Drucker in his writings, from the 1942 “Future of Industrial Man” to his 2002 “Managing in the Next Society”.

Drucker has also recognized that there are organizational and philosophical differences in how U.S. and European businesses regard responsibility and governance. Some critics have reproached him with neglecting that the same ethical principle may require different behavior in different circumstances (Klein, 2000, p. 123). But Drucker never expressly asked for business leaders on both sides of the Atlantic to adhere to a common “code of ethics”. Instead, he envisaged that pragmatism in their management practices and decision-making and rational argument will eventually lead to a standard of behavior, and that this standard would be generated from real-life experiences rather than from belief systems. This argumentation is close to Discourse Ethics, as the paper has demonstrated. It was shown that applying Discourse Ethics helps to resolve the dilemma of weighing ethics versus responsibility on an individual level because it moves it up to a communal level where the criteria for decision-making are contributed through interaction.

As for the “transatlantic divide”, Drucker was very much aware of the differences in European and U.S. business environment. As early as in 1949 he foresaw that the way in which separation between ownership and management is handled in the U.S. and in Europe will have an effect on economic development (The New Society. The Anatomy of Industrial Order, 1949, p. 100). Later, he criticized the role of the American pension funds and the behavior of the big European banks towards medium business (Managing for the Future, 1992, p. 189; p. 50). In 1995 he expressed his ongoing concern that in Europe, “despite all evidence to the contrary, the belief is still deeply ingrained that industrial, blue-collar work, rather than knowledge, is the creator of all wealth” (Managing in a Time of Great Change, 1995, p. 230). On another end, Drucker disliked the tendency of European programs of unemployment benefits to “turn self-respecting workers into permanent welfare dependents” (1995, pp. 324 f). This reasoning has a deeply ethical background. As Drucker points out, nowhere else “the dogma of the uniqueness of the individual” is “emphasized so strongly or made so exclusively the focus of social promises and beliefs” as in the U.S. (Concept of the Corporation, 1960, p. 136). From this background, he draws his preference for individualistic ethics over “collectivist” codes of ethics and responsibility.

Drucker, to put his views on business ethics in a quintessence, used a quote from William Norris: “the purpose of business is to do well by doing good” (The Frontiers of Management, 1982), and, in his own words, “management worldwide has become the new social function” (1989, p 226). With this, we have a pathway (not far from Adam Smith’s, but probably the other way round) from “Homo Oeconomicus” to “Homo Reciprocans” to “Homo Moralis”. For the practitioner on both sides of the Atlantic, this also explains why “Good Ethics” means “Good Governance” and also “Good Cost Control”. What it means is minimizing risks, avoiding fines, court-imposed remedies and criminal charges, reducing operational costs by properly handling environmental and workplace issues, avoiding loss of business and enjoying a greater access to capital – even though the points of departure might be different in the U.S. and in Europe (Lenz 2008, Mitchell 2003, Ulrich 2008). From there, and Drucker would certainly join the argument, business ethics is the challenge of ensuring that the enormous entrepreneurial energies released by today’s free-market global economy end up by serving society and not destroying it. Business leaders have been taught this by Peter F. Drucker all along: “Executive effectiveness is our one best hope to make modern society productive economically and viable socially” (1966, p. 171); “if the managers of our major institutions ... do not take responsibility for our common good, no one else can or will (1973, p. 325).

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⁴The authors have chosen to quote from this book rather than from the original of 1974 because of easier access. 22

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