

CORPORATE ETHICS FOR TURBULENT MARKETS

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CORPORATE ETHICS FOR TURBULENT MARKETS: THE MARKET CONTEXT OF EXECUTIVE DECISIONS

BY

FR. OSWALD A. J. MASCARENHAS, S.J.

XLRI: Xavier Institute of Management, India



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INVESTOR IN PEOPLE

To

Agnes, my oldest sister, who left me in November 2016 for the Kingdom of God, but who still continues to be the ethical, moral, and spiritual empowerment in my life.

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This book represents my latest research and thinking in the critical domain of corporate ethics and morals for governance and business transformation management. This work has taken several years from conception to execution. The plan and contents of this book have been presented and discussed while conducting several graduate courses in *Corporate Ethics or Managerial Ethics* at various Colleges of Business Administration such as University of Detroit Mercy, Detroit, Michigan, USA (2002–2010), T. A. Pai Management Institute (TAPMI) Manipal, South Kanara (2010–2011), St. Aloysius (Autonomous) College School of Business, Beeri, Mangalore (2010–2013), and XLRI: Xavier School of Management, Jamshedpur (2013–). I am grateful for the incisive comments of these students and their professors.

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About the Author



Fr. Oswald A. J. Mascarenhas, S.J.

Fr. Oswald Mascarenhas, a Jesuit priest, obtained LPh in Philosophy (1962) and LTh in Theology (1967), MA in Philosophy (University of Darwad, India) (1967), MA in Mathematical Economics (University of Detroit, 1971), MBA, and PhD. (Wharton School of Business, 1974 and 1976). He served as Professor of Marketing and Director of Public Systems Research at XLRI (1977–1983), as Charles H. Kellstadt, Professor of Marketing and Ethics at the University of Detroit Mercy, Detroit, Michigan (1983–2010), Chairman: MBA Programs, St. Aloysius College (Autonomous), Mangalore (2010–2013), and since December 2013, he has held the prestigious JRD Tata Chair Professorship in Business Ethics at XLRI, Jamshedpur. He has published six professional books and over 75 articles in domestic and international journals. Fr. Mascarenhas was honored with the Best Teacher Award (1992) and Distinguished Faculty Scholar Award (2008) at the University of Detroit Mercy, Michigan, USA. He also conducts Management Development Programs (MDPs) at XLRI in fields related to corporate ethics as also in-company programs in Corporate Ethical Leadership and Moral Responsibility in several companies such as Bank of Baroda, Mahanadi Coalfield, Indian Oil, ONGC, NTPC, Tata Power SED, to name a few. He also teaches PhD-level courses in Research Methodology at XLRI.

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Prologue: Corporate Ethics for Turbulent Markets of Today

Educating the mind without educating the heart is no education at all

– Aristotle (cited in Wass, 2018)

Corporate ethics, as we understand and define throughout this book, is not just a concept or construct, a category or structure of thought, or even a theory or abstraction, but a concrete challenging way of life for corporate executives to think and act legally, ethically, morally, and spiritually (LEMS) in the turbulent markets of today.

Market turbulence has also become a way of life today. Every week the media exposes major corporate organized crimes of deliberate misrepresentation, deception, obfuscation, chicanery, corruption, and bribery, where corporate greed overrides national need, injustice suppresses justice, falsehood infects truth, and evil dominates good. Despite industry watchdogs, government vigilance, and regulation, organized and institutional crime remains unabated and money-laundering runs wild, whereby the rich and smart get richer, and the poor and marginalized get poorer and powerless. Seemingly, traditional business management tools and skills, models and strategies are inadequate to detect, avert, or prevent corporate market crimes, as, allegedly, most of these organized business crimes of the last few decades were conceived, designed, and perpetrated by graduates that hailed from the world's best business and law schools and colleges.

The world was surprised with Donald Trump's decisive election on November 8, 2016. This is an instance of turbulent market. Will he succeed in recovering sustainable competitive advantage that USA has been eroding for long? A Wharton graduate trained in global business management, he has been a successful businessman, and one presumes he will succeed using his business luck, talents, and acumen to make America a booming success again. His political campaign was targeted to bring hope and solace to much neglected yet very vulnerable Americans of the 50s, 60s, and 70s; they voted him in, and President Trump will presumably work toward their prosperity. Undoubtedly, he will face turbulent markets in USA and throughout the globe, and all these will

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pose serious LEMS challenges to him, and hopefully he will rise to their demands. This book on corporate ethics for turbulent markets is an effort in this direction.

The Brexit referendum has been and will be the most defining political event in the UK over the next few decades. A referendum — a vote in which nearly everyone of voting age took part on Thursday, June 23, 2016, to decide whether the UK should remain in or leave the European Union. “Leave” European Union (EU) won by a close margin of 52% with “Remain” to 48%. The voter turnout was 71.8%, with more than 30 million people voting. England voted for Brexit by 53.4% to 46.6%, as did Wales by 52.5% to 47.5%. Scotland (62%) and Northern Ireland (55.8%) voted to Remain. The day after the referendum, in the UK, there was a sharp increase in Google searches asking exactly what the EU is and what leaving it would trigger. This clearly suggests that many Britons voted first and did their homework second. A careful ethical perspective of Brexit results tells us how different communities used different sets of ethics and morals in voting to remain or leave EU. This is another instance of market turbulence for the rest of the world. Corporate executives must function in this world.

As expected, Angela Merkel, Chancellor of Germany, has been nominated by *Time* “the person of the year”, 2015. The year 2015 also marks the start of Merkel’s 10th anniversary as Chancellor of a united Germany. She is for all purposes the *de facto* leader of the EU, arguably the most prosperous joint venture on the planet. Deservedly, *Time* called her the *Chancellor of the World*. A great political and corporate executive, Merkel steered the EU enterprise through two existential crises, either of which could have veritably ended the EU that has kept pace for the last seven decades. The first crisis was thrust upon her when the euro, the currency shared by 19 nations, eroded and together with it endangered the future of the EU nations, allegedly, all because of the default of a single member, Greece. The second was late summer 2015, when Merkel’s government decided to throw open Germany’s doors to a pressing throng of over a million refugees and migrants seeking desperate asylum within her peaceful and promising borders. It was an audacious corporate decision, act, and strategy that threatened both to redeem and endanger EU, testing the resilience of the European alliance. For Merkel, the refugee decision was a galvanizing moment in a career that until then had been defined by caution and avoidance. This episode is a great instance of effective corporate ethics in a turbulent world.

“As we settle into the twenty-first century with all its unique challenges, it is clear that we can no longer regard success as a zero-sum game: one group riding only at the expense of the other. In this new century people worldwide will rise and fall together. Our mission must be to create a global community of shared responsibilities, shared benefits, and shared values,” said Bill Clinton [see “Foreword” to Seidman (2011), p. xi]. This is a great goal for a book on Corporate Ethics for Turbulent Markets.

Dov Seidman, a trained moral philosopher, Founder and CEO of LRN (a pioneering organization since 1994 that has helped hundreds of global

companies build winning cultures inspired by principled performance), argues that in this century, it is no longer what you do or what you know that matters most in any business or nonbusiness organization. In this networked global economy, it is getting harder for organizations and individuals to succeed just on the basis of what they know, produce, or provide. Whatever we do can be easily copied by our competition, and even done better. What really matters for success is HOW we do the things we do, how we differentiate from the rest, personally, professionally, organizationally, and even nationally; how we choose to be bold, to stand out, to excel, to seek greater excellence; how we behave – this is a long and tacit process that is hard to copy or duplicate (Seidman, 2011). This is hard to realize without solid commitment to ethical and moral principles. This is a desirable and achievable mission, vision, and goal for a unique experience of Corporate Ethics that this book explores.

One of the world's leading business thinkers, Professor Michael Porter of the Harvard Business School, in a dialogue with social entrepreneurs and government innovators of the world, recently confessed thus: The last 50 years have been dominated by the idea that economic growth is the most direct route to better our lives for the world's expanding population. But the signs are everywhere – environmental destruction, inequality, injustice – that is, economic development alone is not enough. What is a framework for the next 50 years? We must create a new paradigm in which economic development is the servant of social progress, not vice versa.¹ Students, readers, and practitioners of corporate ethics should note this paradigm shift: Economic development alone is not enough; it should be the servant of social progress. Economic development without social progress breeds economic inequality, social injustice, and popular unrest. This book assumes this paradigm shift and strives to generate awareness and skills in readers to respond to this paradigm shift.

David Orr, an environmental educator and the founder of the Meadow Creek Project, an environmental education center in Fox, Arkansas, USA, in his Commencement Address to the graduating class of 1990 at Arkansas College, said: The plain fact is that the planet does not need more “successful” people. But it does desperately need more peacemakers, healers, restorers, storytellers, and lovers of every shape and form. It needs people who live well in their places. It needs people of moral courage willing to join the fight to make the world habitable and humane. And these needs have little to do with success as our cultures have defined it (Orr, 1990). This book on corporate ethics is not written for achieving success. All success is short-lived, fleeting, and transient. This book is for business students and corporate executives who chose to be peacemakers, healers, and restorers.

Corporate Statesmen

More than 100 years ago, Henry Ford manufactured the Model T as an affordable car for all Americans in 1907, and then campaigned for world peace. Andrew Carnegie advocated universal education. The CEO statesman is not

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content with just accepting a job in the private or public sector. Nor does he simply lobby behind the scenes. He is an evangelist, out to persuade the world of the righteousness of his chosen causes. Ford and Carnegie were CEO statesmen by choice. In the 1908s and 1990s, the CEO celebrity was more prominently typified by Alfred Sloan of GM, Jack Welch of GE, or Lou Gerstner of IBM, such figures penned books on their management philosophies and posed for magazine covers.

John Mackey, Co-CEO of Whole Foods Market, wrote: “The world urgently needs a richer, more holistic, and more humanistic philosophy and narrative about business than the one we have encountered in economic textbooks, in business school teachings, and even from the mouths and pens of many prominent business leaders” (see Mackey & Sisodia (2014), *Conscious Capitalism*, pp. 7–8). The tapestry of human behavior is so diverse, so rich, and so global that it presents a rare opportunity, the opportunity to out-behave the competition and create enduring value. This is ethics for corporate sustainable advantage. This is what this book is all about. In the long run, corporate ethics has to generate sustainable competitive advantage. In this process lie our greatness, success, and our future. This book is about HOW of doing business – the economic, social, ethical, moral, and spiritual values we bring with our business venture, and how thereby we impact the world.

Currently, the business world is still not 100% eco-friendly or environment-friendly. In many countries, especially the rural areas, environmental degradation goes on unabated. Students of business and related studies, the corporate leaders of tomorrow, have therefore an extremely important role to play in building a more sustainable society (Robinson, 2014). Hence, almost all courses in the business curriculum must train students to understand, be sensitive to, the environmental lens of sustainability, not only in terms of sustainability knowledge but also in terms of skills and models for formulating, designing, and implementing sustainability solutions in every department and division of the company (e.g., see Molthan-Hill, 2014). This book on corporate ethics seeks to take a lead role in this transformational process of corporate statesmanship. Wherever possible, we integrate ecology, sustainability, cosmic spirituality, world harmony and peace into ethics, business ethics, managerial ethics, and, especially, corporate executive ethics.

Critical Importance of Corporate Ethics Today

Several multinational and global companies were involved in accounting irregularities. Enron (October 2001) led the gang, followed by Quest Communications (February 2002), Global Crossing (March 2002), [World.com](#) (March 2002), Adelphia Communications (April 2002), CMS Energy (May 2002), Dynergy (May 2002), El Paso (May 2002), Halliburton (May 2002), Peregrine Systems (May 2002), AOL Time Warner (July 2002), Bristol-Myers Squibb (July 2002), Duke Energy (July 2002), and in India, Satyam (2009), 2G-3G (2010–2013), CWG (2011), Coalgate (2012), to name a few. More recent accounting scandals

were associated with onetime respectable companies such as Arthur Anderson, Ernst & Young, KPMG, JP Morgan, Merrill Lynch, Morgan Stanley, Citigroup, Salomon Smith Barney, Marsh & McLennan, Credit Suisse First Boston, and even the New York Stock Exchange (NYSE) itself. Most of these failed companies represented bad business decisions and ethical failures. Most of the top executives involved in such accounting scandals and financial irregularities were business graduates of some of the topmost business schools of the USA. It was a massive failure in business ethics, managerial ethics, corporate executive ethics, and corporate governance.

People we normally trusted let us down, filling us with doubts about the structure of our values and beliefs. Then the World Trade Center towers came down, ushering in a series of global attacks against civilians – Madrid, London, Bali, Mumbai, and others (Seidman, 2011, p. 45). This was followed by the mighty collapse of Lehman Brothers, AIG, Washington Mutual, Merrill Lynch, Morgan Stanley, Wachovia, and a host of other gigantic investment institutions in September–October 2008. Then, some destructive regional wars in the Middle East and the Crimea with wanton economic sanctions have left us all destabilized, uneasy, and unsafe. All these were bad, wrong, unethical and immoral, national and corporate decisions and choices. Complex invasive security procedures now intrude even our day-to-day lives. The world needs healing. The world needs restoration of hope. A book on corporate ethics can jump-start this movement for global wholeness and integrity, corporate transparency, and honesty.

In the very turbulent world markets of today, in the wake and grip of these scandals and systematic accounting and financial irregularities, a recapture of a strong sense of business and corporate ethics is urgently imperative in every business school curriculum and corporation conduct. The massive consequences of unethical executive behavior and unethical business institutions cannot be ignored. The 17 mega global investment banks that lost close to a trillion dollars in market capitalization during September–October 2008 financial crisis and the subsequent federal bailouts that sought to rescue them that cost the US taxpayers more than a trillion dollars were not market failures – they were man-made market turbulences schemed and contrived by MBAs and finance (CFAs) graduates from prestigious business schools. Recent consumer boycotts of hitherto industrial icons such as Levi-Strauss, Gap, Home Depot, McDonald's, Nike, Kmart, Wal-Mart, and Shell Oil are moral wake-up calls for all corporations and their executives to renew their moral commitment to society. We need strong corporate ethics at all levels.

Adam Smith wrote *The Wealth of Nations* way back in 1776. This was not a book on economics as a source of wealth. It spoke about moral principles as a source of wealth. Adam Smith was a British moral philosopher; he was not trained as an economist. He spoke about ethics as a way of life for corporate advantage. According to the Ethics Resource Center, Washington DC, companies that are dedicated to doing the right thing have a written commitment to social responsibility, and act on it as a way of life, are consistently more profitable than those who do not. If your company is ethical and socially

responsible, it automatically cannot make you rich and successful, but it will definitely pave the way for you to become successful. Ethics + competence = success is a winning equation. This is the equation of ethics for corporate advantage. On the other hand, companies that continually attempt to test the edge of ethics inevitably go over the edge. Shortcuts, deception, cheating, and cutting corners test the edge of ethics and never pay off in the long run. In the long term, people and organizations always lose when they live without ethics and guiding moral principles.

In 2002, the US Congress passed the Sarbanes-Oxley Act (popularly known as the SOX Act) to address the increasing wave of corporate accounting and financial scandals. Section 406 of this Act mandates that corporations should have a code of ethics for senior officers that must include standards that promote: (1) honest and ethical conduct, especially in handling actual or apparent conflicts of interests between personal and professional relationships; (2) that all public financial statements of corporations should be full, fair, accurate, timely, and understandable, and authenticated by the CEO and CFO of each firm, who will be held responsible for errors, and (3) compliance with applicable government rules and regulations. Despite this Act, corporate scandals have not significantly abated in the USA or in the Western developed world. A solid course in business ethics, managerial ethics, or corporate ethics for all MBA students and corporate executives could reinforce the importance of and empower compliance to the SOX Act of 2002.

Corporate Ethics through Real Current Business Cases

I have developed over 40 real-time, current business and corporate cases from current market behavior to illustrate and exemplify concepts, theories, and paradigms of ethical theories and moral principles. Almost all cases reflect market problems and behavioral responses during 2013–2016 that happened as I was teaching managerial ethics to graduate students. Some of these cases are distributed throughout the book and introduce chapters that best fit the ethical theories and principles covered in that chapter. The case-study method is a highly and most commonly recommended method that encourages and enables interactive and experiential form of learning (Coyne, Massey, & Thibodeau, 2005; Dellaportas, 2006; Loeb & Ostas, 1997). Also, each of the cases follows the Ignatian Pedagogical Paradigm (IPP) of Context, Experience, Action, Reflection, and Evaluation, even though not categorized in that structure.²

Each case provides a fairly detailed context as and when it happened and how it progressively unfolded during 2013–2016, how it was experienced by the various subjects or actors involved, and what action or actions followed. The reader is then invited (through a series of ethical and moral questions that append the case) to reflect on this context–experience–action sequence, and thus imagine what decisions they would make in such a context, and evaluate them from ethical and moral principles learnt in that chapter. Case studies in general utilize an interactive decision-making model that fosters higher-order

thinking and reflective and experiential evaluation – it is “active learning” (Bonwell & Eison, 1991). We freely use contemporary moral “heroes” as role models (e.g., Mandela, Sherron Watkins, Amar Bose, Lakshmi Sahgal) as well as problematic struggling fallen heroes (e.g., Andrew Fastow of Enron, Rajat Gupta of Goldman Sachs, and Ramalinga Raju of Satyam) as warning examples to illustrate the cases. The corporate readers are welcome to this learning method.

The Structure of This Book

Following systems thinking, we assume that all business problems and the solution alternatives they command, and business and corporate ethical deliberations, explanations and decisions that follow, imply at least three constituents:

- (1) business ethical inputs primarily represented by corporate executive moral agents;
- (2) business ethical processes and procedures normally designed, enforced, and monitored by corporate executive moral agencies, acts and actions; and
- (3) business ethical outputs mostly reflected in the good and bad consequences of corporate executive inputs, and processes of decisions and strategies.

In a morally perplexed world wrought with market turbulence, economic chaos, global financial crisis, corporate fraud, organized lobby and bribery, and gross income inequalities, this book of corporate ethics seeks to examine the general ethical imperatives of business management as a governance system of CEOs as moral agents. A later sequel will cover *Strategies of Corporate Ethics*, in terms of moral agencies as processes of corporate deliberations, moral reasoning and explanations, moral choices, decisions and implementation, and moral consequences as outputs. Global and domestic business cases of current ethical market problems, challenges, and moral imperatives will be proposed and discussed throughout the book in each chapter.

The Target Audience

Organized thus, this two-volume corpus is uniquely designed for corporate executive leaders and boards of directors, business scholars and business practitioners alike, and high potential business students. Both volumes enable and empower corporate executives and business entrepreneurs to engage in corporate-wide decisions and strategies that demand creative, imaginative, intuitive, and innovative business management skills that are optimally economic and legal, and at the same time highly ethical, moral, and spiritual. In the typical MBA program, this book could be useful for courses in corporate ethics, business ethics, managerial ethics, executive ethics, business and society, and ethics of strategy, particularly at the graduate level.

Chapters of this book could be successfully streamlined for conducting management development programs (MDP) and in-company ethics training programs in various critical areas such as strategic ethical and moral choices amidst market turbulence, ethics of business turnaround management, ethics of revenue generation, ethics of cost containment, ethics of organizational downsizing, corporate critical and moral thinking, identifying and resolving corporate moral dilemma, executive moral reasoning and decision-making, exercising responsible judgment calls and choices, corporate boardroom ethics and morals, exercising ethical and moral charismatic corporate leadership, identifying, defining, formulating, and resolving ethical and moral problems of the marketplace, problem solution-alternatives and trade-off analysis, designing and developing organizational ethics cultures, and ethics of equality for humanize the planet.

The Uniqueness of This Book

There are several books on ethics, on business ethics, on managerial ethics, presumably on executive ethics, but hardly any on corporate ethics. A significant percentage of current MBA or PGDBM/HRM students from prestigious B-schools will very soon be corporate executives who will make decisions that will impact the whole company and the industry, its stakeholders, its divisions, peoples, products, brands, and services. Such corporate-wide, industry-wide and nation-wide decisions need to be preceded by proper training in moral reasoning, explanation and justification, ethical scanning and understanding of competition and markets, moral deliberation and choices, prediction and control of high-profit products and markets such that corporate decision-makers can foresee the consequences and assume responsibility for their intended and unintended consequences. Corporate ethics empowers corporate executives to journey through the business cycle of market-scanning, understanding market niches, designing new product for the niches, deliberation and choice, decision and strategy, implementation and monitoring, prediction and control process, market launching and customer feedback – all business cycle stages with ethical, moral, and spiritual challenges – with assurance and clarity. The content and structure of both volumes is geared to realize this corporate objective.

The content of each chapter is best learnt and internalized against real-time “live” cases of current market turbulent problems, episodes, “disruptive changes” (Christensen, Johnson, & Rigby, 2002; Christensen & Overdorf, 2000; Collins, 1999), and “market busting” strategies (McGrath & MacMillan, 2005) as they unfold in the current domestic, international, and global marketplaces. This is best done by challenging corporate executives and professionals, scholars and students with structured and unstructured, complex and “wicked” (Rittel & Webber, 1973) problems in the marketplace as they unfold and unravel through the chaos of risk, uncertainty, and ambiguity of current domestic and global markets. These “real market” problems invite team learning in ethical or moral problem identification, problem characterization, problem formulation, problem specification, and exploration of solution-alternatives and assessment of the final

choice alternative in the actual real-time field of contemporary business and market transactions.

To make the content of each chapter relevant and exciting, each chapter is energized by several contemporary business cases that reflect global, international, national, and local real-time market problems and cases as the latter emerge and develop, capitalize or exploit current market opportunities. Each case is followed by a set of pertinent ethical questions and moral challenges, and the ethical concepts, theories, paradigms, and models that follow (in Volume 2) are designed to empower the reader to address these questions with ethical and moral solutions.

There is no closure to this book. The content of each chapter is continuously evolving and emerging. Hence, a book that captures the real-time ethical and moral process of forming strategic leaders of corporate transformation experience and accomplishment must be a “work in progress” that needs constant updates, upgrades, revisions, and restatements. In other words, this book is not about immutable and frozen conceptualizations and theories, paradigms, models, and strategies of past centuries. It feeds and expands on the real, day-to-day corporate world of ethical and moral business management.

NOTES

1. *Skoll World Forum on Social Entrepreneurship*, published on April 16, 2015; <http://www.skollworldforum.org>.

2. The Ignatian Pedagogical Paradigm (IPP), a 460-year-old approach to education pioneered by St. Ignatius and implemented by the Jesuits, is based on the *Spiritual Exercises* of St. Ignatius of Loyola, but detailed in the *Ratio Studiorum* (Latin for “Plan of Studies”), completed, and promulgated in 1599. While the *Ratio* does not describe the IPP as such, it includes its structure, and is considered the basis for Jesuit education (Hise & Massey, 2010, pp. 453, 462). See also Moberg & Calkins (2001).