

Business Ethics in Norway: History of Business Ethics in Norway and Guidelines of Council on Ethics for the Government Pension Fund Global

Darius BARMAYOUN¹ Marian MOCAN²

Abstract – The aim of this paper is to present business ethics as practiced in Norway. Based on an article published in 1959, a vision of business ethics history in Norway under the rise of industrialism is described. Subsequently, the role of the Council on Ethics for the Norwegian Government Pension Fund Global (GPF) is explained and its guidelines are presented. Aiming to obtain an overview of business ethics in Norway during both industrial and modern era and understand how views have changed during the time, a comparison is conducted.

Keywords Business ethics, business ethics in Norway, council on ethics, ethical guidelines, business, ethics, Scandinavian business

I. INTRODUCTION

Business Ethics, as a term, might be confusing to an individual at first glance [5]. Viewing business and ethics as two opposing concepts that can hardly be interrelated is nothing new. A business is defined as an organization or form of economic activity engaged in commercial, industrial, or professional activities, being governed by inputs and outputs. On the other hand, ethics is described by the Macmillan Dictionary as a set of principles that people use to decide what is right and what is wrong. Further, Gavai (2010) argues that business is part of human life and business organizations do not exist and function outside the society [5]. Thus, businesses must follow concepts such as good and bad developed by the society.

Clark (2013) cites Bednarz who is of the opinion that business ethics is no different than human ethics and that the same high standard should be applied to both [3]. Thus, each organization and all its employees must conduct their affairs with uncompromising honesty and integrity. Furthermore, Bednarz suggests that employees are representing the company, thus they are required to adhere to the highest standard, regardless of local customs [3]. He further presents an interesting view stating that while certain actions might

be legal, they might also be unethical at the same time [3]. If such activities are accepted, a corporate culture is generated that undermines the trust of the consumer in the business, goods, and services, and ultimately damages the company's credibility on the market.

The objective of this work is to present business ethics as practiced in Norway by reviewing an article about business ethics in Norway during the rise of industrialism and by presenting the guidelines of the Council on Ethics for the Norwegian Government Pension Fund Global (GPF).

When it comes to business culture and ethics in Norway, it can be said that it is like other Nordic countries and that it is based on Scandinavian work values. Here, the business cultures were shaped during the years by the Law of Jante, Janteloven, which is a code of conduct known in Scandinavia. It labels not conforming, out of the ordinary and individuality as unworthy. Thus, it suggests that an individual should put society ahead of himself, should not be overly ambitious and should blend into a conformist homogeneity. Moreover, individuals are valued for their kindness and honesty while their professional role is not necessarily used to create judgments and form opinions.

As said, Norwegians are less impressed by titles and power than in other countries and focus on equality. As a result, there are small differences in society and work environments. Confidence, on the other hand, concerns the authorities as well as the residents, employers, and workers but also business associates. Cooperation can also be effective without creating too many frameworks between business partnerships. Moreover, cooperation between the government, employer federations and employee syndicates are a key element of this model.

Having described the Nordic mentality and code of conduct, it is interesting to link them to two factors described by Gavai (2010) as factors affecting business

¹ Politehnica University of Timișoara, Romania, darius@barmayoun.ro

² Politehnica University of Timișoara, Romania, marian.mocan@upt.ro

ethics. The ethical climate of a country and the personal code of behaviour of the individual are some of the factors described in his book as factors that affect business ethics [5]. Furthermore, Gavai (2010) argues that the moral standards of a society reflect in the morals of the business standards. While the general environment in a specific country together with society's moral conduct have a deep influence on business ethics [5]. Linking these factors to the Law of Jante, a clear conclusion can be drawn. Within Norwegian business ethics factors such as ethical environment and an individual's personal code of conduct cannot be considered an issue. In addition, the Nordic countries are known for low corruption rates. According to the Corruption Perceptions Index 2019, Transparency International's flagship research product, Denmark ranks as #1 with 87 out of 100 points, Finland as #3 with 86 points, Sweden as #4 with 85 points and Norway as #7 with 84 points [13].

The outline of this paper is as follows: "History of Business Ethics in Norway" section presents ethical principles in Norway during the Industrialism. "Role and Guidelines of the Council on Ethics for GPF" section aims to describe the role of the Council on Ethics of Norway and present its ethical guidelines. "Business Ethics in Norway, Then and Now" section highlights how views have changed during the time. Lastly, final remarks and conclusions are delivered.

II. HISTORY OF BUSINESS ETHICS IN NORWAY

In the publication entitled "Business History Review" published by Harvard University Graduate School of Business Administration, the Rector at The Bergen School of Retailing wrote an article reviewing business ethics in Norway under the rise of industrialism, 1880-1950. During this section, the presented topics from the article are discussed.

In "The Business History Review 33" (1959) Lunde states the beginning of his article the fact that the theoretical investigation of commercial conduct and the formulation of business ethics, described as commercial principles, have been neglected in both the research field and as a subject for instruction [11]. The Rector further states that one of the main reasons for this is the difficulty to determine standards of values on which business ethics should be based. Moreover, he is of the opinion that the traditional Christian and bourgeois way of life in Norway was replaced in the 1870s by the moral relativism introduced by the combined influence of materialistic philosophy, classical liberalism [11].

By the time the article was published, in 1959, Lunde considered that during the last decade, the spontaneous recognition of basic ethical principles has become easier. The self-limitation of science, reshaping of liberalism and the replacement of Marxism by a social-democratic ideology are viewed as the main factors of this change. Combining the triad

of the ancients "Truth, Goodness and Beauty" with the Norwegian poet Wergeland's "Freedom, Truth, and Love", Lunde (1959) argues that the basic values might be summarized as "Truth, Justice, Freedom, and Solidarity" [11].

Furthermore, Coates states that Max Weber approves and quotes Tolstoy's words: "Science is meaningless because it does not answer our question, the only question important for us: What shall we do and how shall we live?" [1]. Thus, for Max Weber, science can offer no guidance on fundamental value-preference questions. In a similar manner, with few to no studies of business ethics available at that time, Lunde (1959) explains how researchers supported Max Weber's statement that as science cannot preach morals, business ethics must be strictly descriptive [11]. Before proposing standards of business ethics, Lunde (1959) affirms that the 1900 – 1915 moral reconstruction of business ethics standards was a virtue of necessity. So, even if it was done through industry and trade circles, it was society and its customers that compelled the corporate community to pursue a different course of action towards improving business ethics [11]. The author presents a proposal for business ethics standards that are defined by three main categories.

- The first is "Truth" and is further divided into "Honesty, Integrity, and Confidence".
- The second category refers to "Justice (and freedom)" being divided into "Contribution (to Society), Fairness and Moderation", and
- "Solidarity" the third category, further divided into "Usefulness to Society, Service, and Loyalty".

Lunde (1959) subsequently compares his proposal to various vague ethical codes and basic rules of that time and argues that its principles can be refined and improved, thus forming more concrete criteria of business ethics [11].

In addition, the article continues to describe the Better Business Committee of the Oslo Mercantile Association which was established in 1878 at the Annual General Meeting of the Oslo Mercantile Association. The so-called "Committee of Fifty" was constituted by prominent businessmen from different industries. It is stated that the Committee was an advisory body that exercised a considerable influence on the formation of general business practice standards and even on the framing of commercial law [11].

As material for a business ethics investigation, statements submitted to the Committee until 1953 provided cases for determining the moral standards of commercial conduct, with the Committee expressing its opinion on what constitutes "good business practice" and whatnot. With a total number of 566 cases that have been selected and labelled as representative the investigation revealed that 56.6 percent of the cases proved to be ethically negative while 43.5 percent were ethically neutral.

Results of the investigation are presented, and it is argued that the moral crisis in Norwegian business

existed before the First World War. Although the crisis reached its peak during the war, it cannot be labelled as a war-related phenomenon. It is also affirmed that neither can the deviations from the 1940s and 1950s be attributed to the Second World War as their development started before the outbreak of the war.

It is believed that the development of the deviations might have been influenced by the extent to which in large industrial concern, individual ethical responsibility has been rationalized out of existence. The article concludes stating that “the moral judgment exercised in commercial matters in the leading circles of Norwegian commerce and industry is on a high plane and has proved to be little affected by crises and ethical relativism”. This conclusion is followed by a closing remark that highlights the fact that it is time “to commence some form of continues research into business ethics”.

III. ROLE AND GUIDELINES OF THE COUNCIL ON ETHICS FOR GPFG

Nowadays, with the importance of business ethics proven throughout the decades, companies strive to imply general ethical ideas in their business behaviour. As it was previously discussed, historically, ethical standards were imposed by society and its consumers rather than being developed by business circles. However, recent international scandals have damaged the reputation of some of the most important corporate businesses and even public institutions. As a result, companies and governments seek to gain the trust of the society by increasing transparency and proving the use of ethical standards within their practices.

With the name changed in 2006 from the Petroleum Fund of Norway, the Government Pension Fund Global is a fund into which the economic surpluses produced by the Norwegian petroleum industry are deposited. According to the Norwegian Ministry of Finance, the purpose of the Government Pension Fund is to facilitate government savings to finance rising public pension expenditures and support long-term considerations in the spending of government petroleum revenues [9]. Further it is stated that long-term management of the Fund contributes to intergenerational equity, by allowing both current and future generations to benefit from the petroleum revenues [9].

To evaluate the investments of the Norwegian Government Pension Fund Global (GPFG) in specific companies, the Council on Ethics was established. Being established by Royal Decree on the 19th of November 2004, the Council on Ethics has the role to evaluate if the Fund’s investment in specified companies is inconsistent with its Ethical Guidelines or not [8].

In a press release of the Norwegian Government in 2014, the positive results of the Council on Ethics are expressed by the Minister of Finance Siv Jensen who said: “The Government is today presenting a report to

Parliament on the management of the Government Pension Fund in 2013 [7]. The Fund has served us well and it gives important contributions to the financing of our welfare state”. During the same appearance, the Minister of Finance announced that the government mandates the management of the current ethical exclusion criteria to Norges Bank [7]. But at the same time, he states that: “Openness about ethical exclusions of companies will still be a key feature in the management of the Fund” and that “The Ministry will appoint a new group of experts which shall assess Norges Bank’s work in this particular area” [7]. It is important to mention that Norges Bank Investment Management (NBIM) is part of the Norwegian Central Bank.

Having cleared these aspects, the Council’s activities and guidelines are to be presented as provided by the Council’s Ethical Guidelines Manual [2]. According to the first section of the manual, these guidelines apply to the work of the Council on Ethics for the Government Pension Fund Global and Norges Bank on the observation and exclusion of companies from the portfolio of the Government Pension Fund Global [2]. The Council on Ethics continuously monitors the Fund’s portfolio aiming to identify companies that are responsible for specific misconducts.

Exclusions from the Fund’s portfolio or observation decisions are based on various criteria mentioned in sections 2 and 3 of the GPFG’s Ethical Guidelines manual. Companies are mainly excluded based on two grounds, product-based and conduct-based. From time to time, there might be cases of uncertainty whether the exclusion conditions are fulfilled or not. Under such circumstances, the company is to be placed under observation.

Section 2, entitled “Criteria for product-based observation and exclusion of companies”, states that the Fund shall not invest in companies which themselves or through entities they control: “produce key components for weapons that violate fundamental humanitarian principles through their normal use; produce tabaco; or sell weapons or military materiel to states that are subject to investment restrictions on government bonds as described in the management mandate for the Government Pension Fund Global” [2]. Furthermore, the Council can exclude mining companies and power producers which themselves or through entities they control “derive 30 percent or more of their income from thermal coal; base 30 percent or more of their operations on thermal coal; extract more than 20 million tons of thermal coal per year; or have a coal power capacity of more than 10 000 MW from thermal coal” [2]. In the same appearance in 2014, the Minister of Finance declared that work will be initiated to further assess the risk from climate change on the Fund’s future performance. Moreover, to address climate change, the Ministry has formed a group of experts to analyse if the exclusion of coal and petroleum companies would not be a better alternative than ownership.

The Council of Ethics can also put under observation or exclude companies that contribute to or are themselves responsible for serious violations of norms. These criteria of exclusions are presented in section 3 which is entitled “Criteria for conduct-based observation and exclusion of companies” [2]. On this basis, the Council of Ethics has determined the following criteria: “serious or systematic human rights violations, such as murder, torture, deprivation of liberty, forced labour, the worst forms of child labour; serious violations of the rights of individuals in situations of war or conflict; severe environmental damage; acts or omissions that on an aggregate company level lead to unacceptable greenhouse gas emissions; gross corruption; or other particularly serious violations of fundamental ethical norms” [2].

Both decisions of exclusion and observation of companies are made public. Section 8 regards publication guidelines and states that Norges Bank must maintain a public list of companies that were excluded from the Fund or placed under observation [2]. In addition to the decision publication of Norges Bank, the Council on Ethics must publish its recommendations [2]. Screening through Norges Bank Investment Management’s list of excluded companies, well-known companies such as Airbus SE, Boeing Co, British Amirian Tobacco Plc, Coal India, Honeywell International Inc, Okinawa Electric Power Co, Philip Mors International Inc, Tata Power Co Ltd and many other can be found marked as excluded or under observation.

IV. BUSINESS ETHICS IN NORWAY, THEN AND NOW

An interesting approach by Ihlen’s (2015) work traces the roots of corporate social responsibility in Norway. Even though Business Ethics and Corporate Social Responsibility are two different terms, they are often used interchangeably. As Morales Pedraza (2010) argues, there has always been a contradiction between the two [10]. He further states that what is good for society is sometimes not good for the business and vice versa [10]. However, we saw in a previous section that society and its consumers were the ones who imposed business ethics to Norwegian companies.

Norwegian business environment has been dominated during the years by small and medium-sized companies. According to a Eurostat statistic published in 2018, only 2.5 percent of the approximately 300,000 active Norwegian companies can be characterized as large [4]. Ihlen (2015) cites Thue in his work who stated that while there was a Norwegian aristocracy, much of its nobility was considered poor by contemporary European standards [6]. Ihlen’s (2015) further argues that this had implications for the development of a rather egalitarian society that later would influence the understanding of social responsibility [6].

KOMPakt, a new kind of forum, was organized in 1998 by the Norwegian government to facilitate the communication with Norwegian businesses. The aim was to consult the government on ethical challenges faced by organizations conducting business abroad. Citing the Ministry of Foreign Affairs, Ihlen’s (2015) states that a white paper on human rights and business was issued because of this forum [6]. The paper clarifies the government’s position explaining that Norwegian companies should consider human rights in their business dealings.

Nowadays, organizations such as the above presented Council on Ethics for GPFG are striving to impose ethical guidelines. In addition, ethical business practices are maintained by the Confederation of Norwegian Enterprise (NHO) which aims to maintain and create conditions that protect competitiveness and profitability. By doing so, they succeed to keep an impressive level for a good living standard and economic growth.

V. CONCLUSIONS

With the Norwegian business environment being based on the Scandinavian work model, it can be assumed that Norway is one of the leading examples when it comes to business ethics. Having followed a Christian and bourgeois way of living, values such as equality and fairness are deeply understood by any Norwegian. If the article published in 1959 concluded that it is time “to commence some form of continues research into business ethics” in Norway, I would conclude stating that to reach the high level of Norwegian ethical values, it is time to commence the implementation of the Scandinavian work model.

REFERENCES

- [1] Coates, Peter. *Ibn 'Arabi and Modern Thought: The History of Taking Metaphysics Seriously*. Anqa Publishing, 2002.
- [2] Council on Ethics. “Guidelines for Observation and Exclusion from the Government Pension Fund Global.”, n.d. <https://nettsteder.regjeringen.no/etikkradet3/files/2019/12/guidelines-for-observation-and-exclusion-from-the-gpfg-01.09.2019.pdf>.
- [3] Clark, J. Peter. "Ethics in Business." In *Practical Ethics for Food Professionals*, 75-91. Chichester, UK: John Wiley & Sons, 2013.
- [4] Eurostat. “Statistics on Small and Medium-Sized Enterprises.”, May 2018. https://ec.europa.eu/eurostat/statistics-explained/index.php?title=Statistics_on_small_and_medium-sized_enterprises#Country_by_country_analysis.
- [5] Gavai, A. K. *Business Ethics*. 2nd ed. Mumbai India: Himalaya Pub. House, 2010.

- [6] Ihlen, Øyvind and Heidi von Weltzien Hoivik. 2015. "Ye Olde CSR: The Historic Roots of Corporate Social Responsibility in Norway: JBE." *Journal of Business Ethics* 127 (1): 109-120.
- [7] Ministry of Finance. "A Sound and Responsible Management of the Government Pension Fund." Government.no. Accessed April 20, 2020. <https://www.regjeringen.no/en/aktuelt/A-sound-and-responsible-management-of-the-Government-Pension-Fund/id755312/>.
- [8] Ministry of Finance. "The Council on Ethics." Government.no. Accessed April 21, 2020. <https://www.regjeringen.no/en/topics/the-economy/the-government-pension-fund/responsible-investments/the-council-on-ethics-for-the-government/id447010/>.
- [9] Ministry of Finance. "The Government Pension Fund." Government.no. Accessed April 10, 2020. <https://www.regjeringen.no/en/topics/the-economy/the-government-pension-fund/id1441/>.
- [10] Morales Pedraza, Jorge. (2014). Re: Can we make a clear distinction between business ethics and CSR? Retrieved from: https://www.researchgate.net/post/Can_we_make_a_clear_distinction_between_business_ethics_and_CSR/53613fc2d039b16b7c8b464f/citation/download.
- [11] The Business History Review. "Business Ethics in Norway: Under the Rise of Industrialism, 1880-1950." *The Business History Review* 33, no. 3 (1959): 401-08.
- [12] Thue, L. (2008). Norway: A resource-based and democratic capitalism. In S. Fellman, M. Jes Iversen, H. Sjøgren, & L. Thue (Eds.), *Creating Nordic capitalism: The business history of a competitive periphery* (pp. 394–493). Basingstoke: Palgrave Macmillan.
- [13] Transparency International. "Corruption Perceptions Index 2019." www.transparency.org. Accessed April 10, 2020. <https://www.transparency.org/cpi2019>.