BUSINESS ETHICS AND SOCIAL RESPONSIBILITY

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ABSTRACT

The success of modern business is apparent, but recently there is much concern in the business-and-society literature and in the general press on whether business fulfils its social role responsibly. Business ethics, corporate social responsibility and corporate governance movements have been developed in recent decades as responses to a growing sense of corporate wrongdoing. This paper attempts to explain why the three movements seem yet to have generated little in the form of widely accepted prescriptions for improvement of business behaviour to the satisfaction of the "constituents" of business, i.e. the major stakeholders. Without denying the usefulness of any of the three movements, the paper suggests that there are weaknesses in all three, especially concerning the way they conceive modern business operation. To this end business pluralism, responsive codes of practice and re-examination of the assumptions (conditions) of business operation could be helpful.

KEYWORDS: Business Ethics; Corporate Social Responsibility; Corporate Governance; Business Ideology; Business Conduct.

INTRODUCTION

In the business literature there is a major strand that celebrates business strength and seeks formulae for success. This strand was manifested in the Scientific Management tradition dating from Frederic Taylor's work in the early twentieth century (Taylor, 1911) and continued through the Human Relations studies of Elton Mayo that sought to find growth through taking care of the "people dimension" (Roethlisberger and Dickson, 1939). The tradition was further developed following the publication by Peters and Waterman (1982) of their book In Search of Excellence, and by Goldsmith and Clutterbuck (1985) in The Winning Streak and by the movement for business process re-engineering (Hammer & Champny, 2001) In contrast, a parallel discussion has always existed concerning the growth in (compulsory or voluntary) systems and organisations established for regulating international and national business, and indeed, for protecting consumers from some of the effects of the less admirable business behaviour. In the United States, antimonopoly legislation has existed, for example in the Anti-Trust laws from the 1880s. Consumer lobbies have successfully campaigned over the safety of motorcars and many other issues. However, business activity has also raised a wide range of critical views expressed largely in the communications media. The presence of critiques of business activity is not a new phenomenon. In particular, business activity by large enterprises has always faced criticism. Some of the critics have been internal1 , but other criticism is extended to the way large businesses behave towards small businesses and dominate consumers, suppliers and the labour market, for example2 . Some of these issues have given rise to legislation and to regulatory agencies, designed to remedy particular problems or excesses that have been identified. The publication of the International Labour Organisation's Labour Standards in the 1920s resulted from reports of abuses as well as from the economic disruptions following the First World War. These standards have often been reported as being systematically and chronically evaded in many areas. Following these criticisms, three movements have emerged in America and Europe in recent decades, which appear to offer ways of alleviating corporate abuse. They have much in common, despite their different origins and different emphases. They are: business ethics, corporate social responsibility.

The purposes of the present paper are:

1) To review these three movements in the light of the literature that serves them, and in the light of the problems they seek to address;
2) To identify their similarities and differences;
3) To provide a summary critique based on the notion of business as an ideology that could benefit from the introduction of a more pluralistic conception of the role of business and management.

LITERATURE REVIEW

Ethics is believed to be a set of moral beliefs and conduct that discourages acts of selfgain and encourages honest and modest ways of generating business income (Ghosh et al., 2011). Ethics plays an important role in developing a business' strategic plan as it serves as the backbone of the firm's principles. The firm's goal is to provide services and products, and acquire profit through the business' sales and operations (Ethics Resource Centre, 2009; Kalshoven et al., 2011). In spite of the business' goal to acquire profit and their return of investment, it is important that the strategies they employ in their operations are bound by moral and ethical standards for their stakeholders (Lewis, 2002). Such measures are not only applicable to their customers, but also to their employees, the community they operate in, the government, and the media (Johnson, 2004; Elango et al., 2010). However, common business practice dictates ethics and corporate social responsibilities to be overlooked due to the firm's drives to increase sales and revenue (Ghosh et al., 2011). The launch of marketing campaigns and sales advertisements as a mean to market their products and services must be bound by ethical guidelines, which would ensure the safety of the stakeholders, without compromising the effectiveness of the company's operations (Lewis, 2002; Ferrell and Ferrell, 2011). Since businesses are a type of human activity, aside from evaluating them from an economic perspective, one must also put into consideration the moral obligations (Georgescu, 2012).Understanding and identifying the employees' common values and priorities is a determinant of the present culture the organization has (Koonmee, 2010). Because of this belief, companies have then focused on instilling a company standard of work ethics to employees,

BUSINESS ETHICS:

Business ethics as a self-conscious (voluntary) way of looking at business has shown a major growth since the 1980s. In particular, in the USA in the 1970s, concerns were being voiced in relation to several developments:

• Rising costs of litigation involving architects, accountants and lawyers
• Positive discrimination
• Product safety (e.g. Ralph Nader's campaign on car safety)
• The "Watergate" scandal
• Public sector strikes
• Environmental issues (e.g. Environmental Protection Policy Act, 1969
• "Whistleblower" issues
• Corporate bribery of foreign officials
• Transport disasters (e.g. Challenger spacecraft explosion in 1986)
• Plant explosions (e.g. at Bhopal, India, 1984; Seveso, Italy,1976)

THE NATURE OF BUSINESS ETHICS

There is no consensus as to the nature of business ethics. In fact the business and-society literature shows a great disparity of opinions. The opponents of business ethics assume that they have sufficient grounds for rejecting it. Some typical views are: -

"Ethics and business don't mix - business is a technical, not an ethical matter"

"It is naive to think that business will let ethics get in the way of making profits"

"There are no ethical companies, because they all break the ethical rules from time to time".

It is useful at this stage to note that business is driven by values. Not all values are ethical in the sense of expressing duties, such as fairness, or honesty, or obligations to honour promises or contracts. Some values are technical, expressing skilled operation of business. Others are prudential, expressing a need to avoid unwanted repercussions or legal sanctions. Some advocates of business ethics as a discipline can be thought of as advocating "better" ways of encouraging or enforcing conventional standards. They may even propose new values or practices. These advocates are able, logically, to evaluate business operations in these terms. The standards themselves are capable of analysis in terms of the ethical principles of fairness, honesty, or promise keeping (for example). The standards and their application are capable of analysis in terms of consistency, clarity and much else. To do so is to do business ethics. Thus, everything business does is ethically relevant. Business can no more escape having an ethics than it can avoid having a structure or reputation.

FURTHER ISSUES:

Some of the issues related to business ethics, law and regulation can be summarized within three different approaches, namely relativism, subjectivism and objectivism:

- **RELATIVISM**
  It is the idea that ethics depend upon the time and place. The main perspective within the context of relativism is that what is obligatory in one country or time can be seen as immoral in another (e.g. bribery, free markets, monopoly, slavery; hire-and-fire working relationships).
- **SUBJECTIVISM**
  It is concerned with the idea that values are a matter of individual taste and preferences.
- **OBJECTIVISM**
  In there are the predominant idea is that there are at least some values that are not dependent upon time and place or individual whims. These values include keeping promises, telling the truth, doing good and not harm, treating people as you would want them to treat you, just to mention a few
- **CORPORATE SOCIAL RESPONSIBILITY**
  The Corporate Social Responsibility movement is not well articulated in Europe, especially in some Mediterranean countries. For the promotion of the movement in 1995 the Corporate Social Responsibility Europe network was launched aiming "to help companies to achieve profitability, sustainable growth and human progress by placing in the mainstream of business practice."
- **The Corporate Social Responsibility debate: background:**
  The academic debate over social responsibility has been launched within neoclassical economics. The main issue addressed since then is whether business socially responsible activity pays returns for corporate financial performance. Up to now, there is no general consensus on the matter. In particular, neoclassical economists have claimed that there is no (positive) correlation between philanthropic action and profits. Relevant classical literature advocates that in the long term Corporate Social Responsibility has positive effects on business performance. Furthermore, early in the 70s W. J. Baumol expressed the idea that Corporate Social Responsibility was a proper incentive to individual firms, other than that created by market mechanisms, for the provision of public goods. Central to the Corporate Social Responsibility debate is measurement problems. Most of the empirical surveys undertaken in the field since the-mid 70s have been unable to establish a relation between Corporate Social Responsibility activity and corporate financial performance. Due to this lack, the debate still goes on.

STRENGTHS AND WEAKNESSES

Strength: Despite the range, and continuing criticisms, general and specific of business behaviour in large corporations and institutions, some positive assessments can be made of the impact of the this:

• They have raised awareness of the issues and have sought ways of responding

• They have become organised into coherent arrangements for discussing the issues
• A large literature is developing
• Many organisations and institutions have issued “codes of practice” or “codes of ethics” that set out the norms of behaviour for businesses, professional associations, government departments, and delegated agencies.

The continuing problems and weaknesses include:

• Pensions issues, such as Mis-selling; lack of adequate coverage over time
• The Andersen/ENRON crisis (independence of auditors/checks and balances)
• Continuing cases of insider dealing in stocks and shares
• Executive pay/performance (apparent breaking of links)
• World trade rules, held to give unfair advantage to the rich countries
• Skewed distribution of rewards and welfare within and between countries.
• Monopoly and market abuse
• Escalating executive rewards for failure, falling trust in executives, etc.

RECOMMENDATIONS

The following ideas represent some thoughts proposed as a step forward to avoid present business misbehaviour:

• **Pluralism in the form of business Organisation**: This suggestion is based on the idea that the form of business organisation that has become dominant is not the only, or even the longest-serving form. While directors are, in principle, responsible for the running of business, the “managerial revolution” has long been noted. Not all directors have the same influence, and the corporate governance debate draws attention to the need to reform and / or reinforce some major functions.

• **Responsive codes of practice:** It could also be helpful in the sense that they could include identification of who the stakeholders are in each case, and what their “proper aspirations” are. The stakeholders could be included, along with their active participation, in codes and their operation. How what was termed above the “proper aspirations” can be determined is a major problem in its own right, but it will never be alleviated until it is more widely recognised.

• **Terms of debate**: Re-examination of the assumptions (conditions) of business operation to include the above would be timely. The technical superiority of “the market” over other forms of business conditions has been demonstrated. However, not everything that happens in “the market” is the result of impersonal market forces. It is a managed process. Its critics claim that it could be managed better, according to ethically sound principles.

CONCLUSION

Discussions of corporate social responsibility and business ethics have yielded many reports, and created many networks of organisations dedicated to improvement of thought and practice in the areas. There has been much survey research administered through questionnaires on how the top managers view many issues of the day, and on whether they think that codes of practice would be useful. There is much research on consumers’ buying habits, and on whether consumers would buy proposed new products, including service products, and some is addressed to managers. Despite all the above, public cynicism on the operation of codes of practice and of corporate governance is clearly visible. In an imperfect world there is always a gap between the aspirations expressed in codes and their practical operation, but the gap could be reduced by detailed research into their formation, monitoring and reception by their intended beneficiaries. Many processes intervene between aspiration and reality. Some of the processes are internal to particular businesses; other are “fed in” by government, the law, pressure groups and much else. There appear to have been few studies of how these processes work.

• Develop “responsive codes of practice” that incorporate relevant parties in the preparation, monitoring and amendment of codes.

• The extent of positive and negative influences of individuals. Much effort has been expended in making individuals aware of the consequences of their actions or inactions. The propensity of individuals to participate or acquiesce in corporate wrong doing, or to benefit from unfair advantage is sometime cited. It seems to us that there are no good reasons to believe that the propensity has become more widespread or more powerful over the last few millennia. But opportunities have clearly increased with the abolition of the old controls that governed business behaviour before the era of globalisation, before the ending of the gold exchange standard in the 1970s and before the digital revolution. On this basis, providing opportunities for executives to contemplate the ethical aspects of their actions can have only limited effects. But there are few grounds for asserting with confidence what the majority of players in the business field want, as suppliers, customers or employees, or as recipients of the consequences of business operation. More knowledge of expectations, and of how to assess their legitimacy would be of great value. It is possible that the expectations would turn out to be quite modest.

As Aristotle put it, “The conclusion of a moral argument is an action”

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