BUSINESS ETHICS - "A COMPETITIVE ADVANTAGE FOR COMPANIES"

Dr. Mrinal Verma
Assistant Professor,
KIET School of Management, KIET Group of Institution, Ghaziabad

Abstract

"The more one knows ethics, the more it is used and the more useful it becomes"-Plato, The quote by Plato is a reminder on just how important ethics is and how important it is to educate your employees on proper ethical practices. In this paper we would like to look at the topic of global business ethics and its advantage on companies over another. It is globally believed that the only way to build long-term relations with shareholder value is to incorporate economic, social and environmental codes of conduct into business strategy. Global expansion has brought greater involvement with different cultures (affect of culture on ethical behavior) & socioeconomic systems. With this development, business ethics have shown remarkable entry in the globalization era. Thus, the importance of business ethics is integral to the reputation, growth and finances of any organization. All organizations are primarily run for profit and for the benefits of stakeholders so they have a lot of responsibilities towards their internal & external customers and suppliers but some has recognizes their responsibilities to the greater extent and they are working for the communities in which they are located and to the society at large to utilize their business ethics as a source of competitive advantage. This research will explain the growing issues particularly on the following points:

1. As a competitive advantage
2. Affect of culture on ethical behavior

3. Ethics as threat to business competitiveness in case of ethical failure

A decade ago, many companies viewed business ethics only in terms of administrative compliance with legal standards and adherence to internal rules and regulations. Now due to globalization era companies' records of positive or negative ethical conduct determine their "licence to operate" in some markets…

Keywords: Ethics, Globalization Era

Introduction:

Business Ethics, like any discipline, reflects the alliance of its central figures to specific schools of thought, as well as the impact of a particular set of contextual circumstances. The term 'ethics' is derived from Greek word *ethika* meaning 'character' or 'custom'. It deals with customary ways of acting and universal and relative judgment as to the rightness or wrongness of human conduct; hence its association with moral philosophy. As a branch of philosophy, ethics embodies "the analysis, evaluation and development of normative moral criteria for dealing with moral problems" (Gewirth, 1978: 976).

To understand the concept of Ethics we require management perspective. Attention is focused on the attitudes, Experiences, Expectations, Problems and changes in individual and Groups as they interact at work.

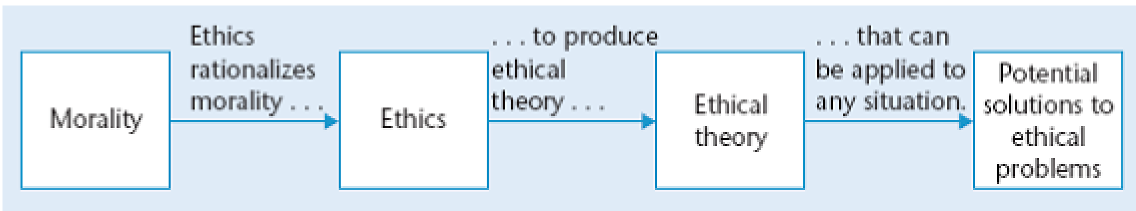
Business ethics is rooted in the earliest history of mankind, since commercial practices (Perhaps in various forms) have always existed (Mcmahon, 1997). Business ethics has been developed as a branch of general ethics, and is concerned with the moral adequacy of business action (Goodpaster, 1997). Fundamental to business ethics are the general ethical principles such as honesty, keeping promises, helping others, and respecting the rights of others (Post,Lawrence, & Weber, 2002).

Moral adequacy in business ethics refers to two levels of analysis – individual and corporate (Werhane & Freeman, 1999). At the organizational level, moral adequacy of business actions s evaluated with reference to four general principles (Goodpaster, 1997): (1) virtues, or a value system that takes decisions incorporating the principles prudence, justice, temperance, and courage; (2) duties, or obligations to fidelity in relationships and loyalty to the community; (3) rights, or respecting basic freedoms and equalities; (4) interest, or the morality of self- interest, group interest, or greatest (God or number) interest. These principles are established at the corporate level and denote the ethical norms that an organization should consider in its performance.

As applied to business firms, ethics is the study of good and evil, Right and wrong and just and unjust actions of businessmen. If protecting others from any harm is considered to be ethical, then a company, which recalls a defective or harmful product from the market, is an ethical company. To be considered ethical, business must draw their ideas about "What is desirable Behavior "from the same source as any body else would draw. People who are in business are bound by the same ethical principles that apply to others. In common parlance the term "business ethics" refers to the systems of principles rules of conduct applied to business. In practice, the term has been used to describe the do's and don'ts for the business the various things that business should or should not do viz not violating any law, avoiding unethical practices, making donations to charitable causes, taking up development projects in backwards areas, paternalism towards employees, good public relations etc.

Business ethics is the study of business situations, activities, and decisions where issues of right and wrong are addressed. Ethics is concerned with the study of morality and the application of reason to elucidate specific rules and principles that determine right and wrong for a given situation. These rules and principles are called ethical theories.

The relationship between morality, ethics & ethical theory is mentioned below:



The term "globalization" has acquired considerable emotive force over the years. Some view it as a process that is beneficial—a key to future world economic development—and also inevitable and irreversible. However some regard it with apprehension and fear, believing that it increases inequality within and between nations, threatens employment and living standards and thwarts social progress (Adeboye, 2002; WorldBank, 2003; Van Der Bly, 2005).

The International Monetary Fund, IMF, (1997: 15) defined globalization as "the growing economic interdependence of countries worldwide through the increasing volume and variety of 'cross border' transactions in goods and services and of international capital flow and also through the more rapid and widespread diffusion of technology" Moreover, Kwanashie (1998: 3) defined globalization as "a process of integrating economic decision-making such as the consumption, investment and saving process all across the world. It is a process of creating a global market in which increasingly all nations are forced to participate".

In this era of globalization and multinational competition, Ethical practices in business are assuming importance as relationships with various suppliers and customers are shaped by ethical practices and mutual trust, so ethical decision taking assumes importance in today's corporate world. There are various issues relating to ethics and corporate ethics in the corporate world.

Gone are the days of Milton Friedman, who asserted that the sole objective of a business is and should be the maximization of shareholder's value. Social missions according to him are the responsibilities of individuals, social Agencies and the government. Business today far from being a profit making institution is largely looked upon as a social institution pursuing a social mission and having a far-reaching influence on the way people live and work together. Modern corporate do not operate in isolation. The resource they make use of are not limited to those of the proprietors and the impact of their operation is felt also by many a people who are in no way connected with the business. The shareholders, the suppliers of resources, the consumers, the employees, the local community and the society at large are affected by the way an enterprise functions.

Companies do not operate in a vacuum but rather are plunged in a universe of relationships with multiple stakeholders. With the globalization the scenario in which companies operate has become even more complex, given the emergence of global groups of stakeholders. Furthermore, globalization has also increased the levels of competition among firms, which look for new a creative ways to create a competitive edge (Friedman, 2000)

In this context, Business Ethics becomes a prerequisite for conducting any type of business, particularly in the global marketplace. Traditionally, there have been two views on the role of ethics in business. The first perspective is that the corporate executives' sole responsibility is to maximize the shareholder's value. The second view is that "ethics pays," which implies that acting in a socially responsible way towards shareholder will automatically enhance shareholder wealth (Verhezen, 2005).

There is also an argument that ethics are natural market consequence of business – shareholders, employees, consumers, suppliers & competitors, civil society and government regulations all want their companies to be ethical, so it is the company's best interests to be so. Below is the table showing the ethical impact of globalization on different stakeholders.

Stakeholders	Ethical impacts of globalization
Shareholders.	Globalization provides potential for greater profitability, but also greater risks. Lack of regulation of global capital markets, leading to additional financial risks and instability.
Employees.	Corporations outsource production to developing countries in order to reduce costs in global marketplace – this provides jobs but also raises the potential for exploitation of employees through poor working conditions.
Consumers.	Global products provide social benefits to consumers across the globe but may also meet protests about cultural imperialism and westernization. Globalization can bring cheaper prices to customers, but vulnerable consumers in developing countries may also face the possibility of exploitation by MNCs.
Suppliers and competitors.	Suppliers in developing countries face regulation from MNCs through supply chain management. Small scale indigenous competitors exposed to powerful global players.
Civil society (pressure groups, NGOs, local communities).	Global business activities brings the company in direct interaction to local communities with possibility for erosion of traditional community life; globally active pressure groups emerge with aim to 'police' the corporation in countries where governments are weak and tolerant.
Government and regulation.	Globalization weakens governments and increases the corporate responsibility for jobs, welfare, maintenance of ethical standards, etc. Globalization also confronts governments with corporations from different cultural expectations about issues such as bribery, corruption, taxation, and philanthropy.

This paper presents a brief review of the existing literature on the role of business ethics in the globalization era. Firstly we'll find out the affect of the culture on ethical behavior. In the second part we'll discuss the concept of business ethics as a firm's competitive advantage within the context of globalization. And then we'll take ethics as threat to business competitiveness.

Part 1: Affect of culture on ethical behavior

Organizational culture is a pattern of basic assumptions that are considered valid and that are taught to new members as to perceive, think and feel in the organization. The culture of an organization has a large effect on the ethical decisions of its members. A culture that promotes risk lenience, checks and balances, and conflict tolerance creates an environment for high ethical standards. A strong and ethical corporate culture influences people positively. An organization, which has a pleasant culture, enhances the ethical standards of managers.

A very important and influential aspect of a corporate culture is the influence of power by those in leadership positions. "Organizational leaders use their power and influence to shape corporate culture." (Ferrell, Fraedrich & Ferrell. 2009. p 185)

"Do organizations vary in the '**ethical culture**' they establish for their members? The answer to the question is yes, and it is increasingly clear that the ethical tone or climate of organizations is set at the top. What top managers do, and the culture they establish and reinforce, makes a big difference in the way lower-level employees act and in the way the organization as a whole acts when ethical dilemmas are faced.

The ethical climate of an organization is the shared set of understandings about what is correct behavior and how ethical issues will be handled. This climate sets the tone for decision making at all levels and in all circumstances. Some of the factors that may be emphasized in different ethical climates of organizations are (Hunt, 1991; Schneider and Rentsch, 1991):

- Personal self-interest
- Company profit
- Operating efficiency
- Individual friendships
- Team interests
- Social responsibility
- Personal morality
- Rules and standard procedures
- Laws and professional codes

As suggested by the prior list, the ethical climate of different organizations can emphasize different things. For example, there was no doubt in anyone's mind at Johnson & Johnson what to do when the infamous Tylenol poisoning took place. Company executives immediately pulled their product from the marketplace they knew that "the J & J way" was to do the right thing regardless of its cost. What they were implicitly saying was that the ethical framework of the company required that they act in good faith in this fashion. In other organizations--perhaps too many--concerns for operating efficiency may outweigh social considerations when similarly difficult decisions are faced.

When the ethical climate is not clear and positive, ethical dilemmas will often result in unethical behavior. In such instances, an organization's culture also can predispose its members to behave unethically. For example, recent research has found a relationship between organizations with a history of violating the law and continued illegal behavior (Baucus and Near, 1991). Thus, some organizations have a culture that reinforces illegal activity.

Part II: Business Ethics as Competitive Advantage in the context of Globalization

Business ethics of a firm has been defined as one of the invaluable intangible assets for competing. In general, intangible assets are assuming increasingly competitive significance in rapidly changing domestic and global markets

Business ethics should become part of corporate codes, and if implemented in the line of business as a corporate philosophy it should help achieving a competitive advantage for the firm. While short-term competitive advantage is obtained by appealing to customers in targeted external markets (in the context of globalization), long-term sustainable competitive advantage is the result of exploiting an enduring core of relevant capability differentials cultivated by responsible management of tangible and intangible internal skills and assets (Petrick & Quinn, 2001).

Competitive advantage comes from successful formulation & execution of strategies that are different from the strategies of competitors. For example, a company with superior business leadership skills in enhancing integrity capacity increases its reputation capital with multiple stakeholders and positions itself for competitive advantage relative to companies without comparable leadership performance. A sustainable competitive advantage is possible only after competitor's efforts to duplicate the value creating strategy have failed. Firms must understand how to exploit a competitive advantage if they intend to create more value than competitors. It leads to higher return for those who have invested their money in the firm and for the firm itself. This is an indication that the strategies the firm is adopting are leading to competitive advantage in this globalization era.

The term "globalization" has acquired considerable emotive force over the years. Some view it as a process that is beneficial—a key to future world economic development—and also inevitable and irreversible. However some regard it with apprehension and fear, believing that it increases inequality within and between nations, threatens employment and living standards and thwarts social progress (Adeboye, 2002; World Bank, 2003; Van Der Bly, 2005).

Part III: Ethics as Threat to Business Competitiveness

In recent years, the spotlight on corporate world has revealed corporations' misuse of their shareholders' and stakeholders' trust. In the wake of numerous recent corporate scandals (ex. Enron, Satyam), politicians and lawmakers have suggested more stringent reporting and control to restore the reputation of the corporate world.

The Enron scandal, revealed in October 2001, eventually led to the bankruptcy of the Enron Corporation, an American energy company based in Houston, Texas, and the dissolution of Arthur Andersen, which was one of the five largest audit and accountancy partnerships in the world. In addition to being the largest bankruptcy reorganization in American history at that time, Enron undoubtedly is the biggest audit failure.. Enron's nontransparent financial statements did not clearly detail its operations and finances with shareholders and analysts In addition, its complex business model stretched the limits of accounting, requiring that the company use accounting limitations to manage earnings and modify the balance sheet to portray a favorable depiction of its performance

However, strict reporting, detailed codes of conduct and regulations and rules are certainly necessary but not sufficient. A firm with a good reputation is one with an image that fits the ethical values of an individual agent, and which when it is relevant, fosters good relationships (Geoghegan & Azmi, 2005).

Even when being competitive and profitable are considered to be the exclusive factors for staying in business, ethics will always reassert itself as an equally indispensable ingredient. John Akers, a former chairperson of IBM, insists that being moral makes good sense and pays off even in strict business terms; for we compete as a society. No society anywhere will compete very long or successfully with people stabbing each other in the back; with people trying to steal from one another; with everything requiring notarized confirmation because you can't trust the other person; with every little squabble ending in

litigation; and with the government writing reams of regulatory legislation, tying business hand and feet to keep it honest. Akers is referring here to problems, which are common in the practice of business, the Western world: back-stabbing through price wars, stealing of corporate plans, litigation arising from the violation of patent rights,etc. However, similar problems are not absent from the African business world. One example is the Goldenberg fraud (amounting to 12.5 % of Kenya's gross domestic product), which has been described as "Kenya's fraud of the century", "a plot convoluted enough to confuse even an Hercule Poirot", and comparable only to the American soap opera *Dallas*.5 As Seth Accra points out with reference to Nigeria, in Africa the real problem with frauds in the banking and telecommunications sectors, in the public services, etc. is that they are perceived as a normal and even necessary compensation for the expansion
of the system of "free enterprise". Therefore, these practices are sanctioned by a quasi-legal system, the "organized invisible spirit of management".

The dynamics of ethical perspectives on business are worthy of analysis to see how claims are made vis a vis what is/is not illegitimate or improper in given instances/cases. Notions of what "ought to be" or should be done so we might improve how we resolve our ethical dilemmas, choices and interventions inform our actions.

As everyday analysts our task is to :

a. Consider what business people get up to that is supposedly ethical or unethical. Business and trade rage across the globe, within companies, between companies and between individuals and groups (internal and external to the actual business). Private, public and voluntary categories of business are bridged as are businesses operating within different cultural, political contexts and levels of economic development.

b. Re-visit ideas and values and draw conclusions on the what, why and how of ethics. The questions posed by classical and more modern thinkers - Plato, Kant, Bentham/Mills, Sidgwick, Mackie are still vibrant. Their propositions are still flavour-full ingredients in the soup of everyday moral predicaments and choices as seen in the context of the business world's ' cut and thrust. Even Machiavelli's recommendations to Princes may illuminate the situation.

Conclusion

The review of business ethics and its impact in the globalization era has its roots in a study of factors that create competition in organizations.

An integrity approach to business can yield strengthened competitiveness: it facilitates the delivery of quality products in an honest, reliable way. This approach can enhance work life by making the workplace more fun and challenging. It can improve relationships with stakeholders and can instill a more positive mindset that fosters creativity and innovations. The purpose of ethics is to enhance our lives and our relationships both inside and outside the organization.

Sound ethical policy is a necessary precondition of any long-term business enterprise. Businesses should not be torn between doing what’s right and what’s necessary to make money; in fact, it’s bad for business, leading to inefficiency and distrust. A good company fosters and environment that encourages people to develop their values and their skills. Business ethics comprise areas of general principles of duty, rules of conduct, and moral principles (Kleiman, 2000).

Business ethics and social responsibility concern the way a company conducts both internal operations, including the way it treats its work force and the impact that doing its business has on the world around it (Reder, 1994). Companies of all sizes and in all sectors are realizing they function and profit best when they merge their interests with the interests of customers, employees, suppliers, neighbors, investors and other groups affected by their operations (Makower, 1994).

Concerns about eroding standards of business ethics have grown dramatically over the past two decades. A study done at among small business owners demonstrated concern that business ethics be taught as part of a business curriculum in higher education and that ethics should be emphasized more in existing business courses across disciplines. This development occurred at the end of the Reagan administration after emerging insider trading scandals and other questionable business practices. The Reagan administration was notable in having more high-level officials either indicted or convicted than any other administration since President Grant (Gordon, et al., 1985).

Our business system depends on the application of ethical values and the ensuing trust that develops. Superior corporate performance depends on a combination of ethical conduct and shared value systems put into action through a program of internal and external social responsibility (Krikorian, 1984).

In the globalization era, we find that “Ethics will be one of the enablers of competitiveness”. Last but not the least, there is another face of business ethics that could be managed also to gain a competitive advantage, which is corporate ethics. On the one hand, business ethics has an external emphasis. Business ethics considers the gap between the corporation's ethical behavior and the market place's perception of the corporation's ethics in its business operations. Corporate ethics, on the other hand, has an internal emphasis and this could be well managed toward a unique competitive advantage as anything related to people (corporate ethics through people) is very difficult to imitate and this raises the chances of achieving a sustainable competitive advantage. Future researches are needed in this particular issue of corporate ethics as sustained competitive advantage.

References

- Buchholz, R. A. (1989). "Fundamental Concepts and Problems in Business Ethics". In Madsen, P., & Shafritz, J. M. (Eds.) (1990). "Essentials of Business Ethics". New York: Penguin Books.
- Toffler, B. (1991, Winter). "Doing Ethics: An Approach to Business Ethics Consulting". Moral Education Forum, 16(4), 14-20.
- McDonald, G., & Zepp, R. (1990). "What Should Be Done? A Practical Approach to Business Ethics". Management Decision, 28(1), 9-13.
- Cazalot, Clarence (2005). “Creating Competitive Advantage through Business Ethics”, Executive Speeches Journal, April/May issue.
- Friedman, Douglas (2000). “Ethics needed to be Part of the Cutting Edge”, Erlanger, Vol. 104, pp. 2-14.

- http://www.allbusiness.com/human-resources/employee-development-employee-ethics/432239-1.html
- Harting, T., Harmeling, S., and Venkataraman, S. (2006). "Innovative Stakeholder Relations: When "Ethics Pays" and "When it doesn't" ", Business Ethics Quarterly, Vol. 16, pp. 43-68.
- Hartman, Laura (2005). Perspectives in Business Ethics, third edition, McGraw-hill International Edition.
- Hartman, Perspective in Business ethics
- Leading Organizations: Perspective for a New Era By Gill Robinson Hickman
- Shleifer, Andrei (2004). "Does Competition Destroy Ethical Behavior?", Harvard University.
- Thomas S Bateman (1999). Management: Building competitive advantage