

Business Ethics

Part II – Developing an ethical framework

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Business organisations are social entities that have an impact on our lives and on the natural environment in which they operate. In the current paradigm of doing business, organisations compete aggressively, often across culturally diverse global markets. Further, many businesses are caught in the spiral of economic growth and the emergence of novel technologies for which the consequences are unknown. In this paradigm, businesses are likely to be confronted with social and ecological ethical dilemmas. Business ethics can play an important role in steering the organisation through these troubled waters.

Developing an ethical framework

Just like changing our bad habits takes effort, it would be foolish to believe that the development of a socially and environmentally friendly organisational culture will be effortless. It would be equally nonsensical to wish for a business ethics regarding accountability to society and stewardship for the natural environment while “doing business as usual”. In the words of Francis Bacon, “it is given only to God and angels to be lookers on in this theatre of man’s life”.¹ The onus is upon us to actualise the transition to an ecologically sustainable future, and businesses have their share of work cut-out.

Objective of the framework: Following the ethical decision making model proposed in Part I, the ethical framework should help the organisation to transcend its current stage of cognitive moral development characterised by individualism, conformity or mere abiding by the law, to a mature and holistic organisation with a deep sense of the “common good” and universal principles. The new organisation will be characterised by a balance between femininity and masculinity, demonstrate its responsibility and accountability to all stakeholders for the whole of its activities and their consequences. Further, ecological literacy will be high on the agenda of such an organisation (see below).

Elements of the ethical framework: Amidst focusing solely on creating value for shareholders several organisations have tried to use green marketing and/or corporate social responsibility as ploys to bolster only their public image. These tactics are bound to become undone sooner or later resulting in more harm than good to the organisation. Businesses that are serious about cultivating an ethics conducive for ecologically sustainable development will reap long-term benefits. What follows is a brief outline of some key elements of the ethical framework.

Mission – The term mission refers to the fundamental purpose and character of the organisation and provides the context within which the vision, strategies and organisational objectives are formulated. First of all, the mission statement, which defines the *raison d’être* of the organisation, should encapsulate the ethical character of the organisation by clearly outlining its responsibility to both society, and the safeguard and nourishment of eco-systems.

Code of Ethics (or Conduct) – The over-arching organisational ethics should be transcribed into a set of written principles that stipulate what behaviour is acceptable and what is not. Although it is not desirable to regulate all aspects of organisational behaviour, the basic guideline for ethical behaviour should be carved into a Code of Ethics.

Leadership – Rules and principles, although necessary, are not sufficient to establish an ethical culture. Foremost, senior management should demonstrate its commitment to an ethical culture. First, senior managers ought to behave ethically - i.e. walk the talk. If not, employees perceive

¹ Quoted in *Business and the Environment*, R. Welford and R. Starkey, Editors (Earthscan Publications, London, 1996), pg. 17.

the cognitive dissonance and consider the ethical principles proposed by the organisation as a sham. Secondly, senior management should make the resources available to effectively promote and sustain ethical behaviour. Simply put, “it is the responsibility of top management to promote the proper ethical climate and to lead by example”.²

Organisational structure and systems – Internal structures and systems (formal and informal) are another mechanism to promote and cultivate ethical behaviour. It should be clear that the same mechanism can also propagate unethical behaviour. Legal regulation is necessary but not sufficient to ensure ethical conduct in organisations. In this respect, structures and systems should be designed around a methodology of best practice, and should strive to go beyond mere compliance with legal requirements. The following are but a few elements worth considering: (1) Recruitment and selection – The organisation can hire employees with attitudes to promote its internal ethical climate, while recognising and respecting the life values of individuals. Encouraging ethical behaviour through regulations is less effective than employing staff whose personal ethics are consistent with the desired organisational culture; (2) Training in how to recognise ethical dilemmas and how to deal with them is critical in creating an ethical culture. It is an efficient way to communicate the ethical objectives of the organisation, and to draw the attention to the fact that employees have the cognitive capacity to first rationalise and then legitimise their unethical behaviour. Another objective of ethics training is to demonstrate congruence between organizational and employee ethics. This congruence serves as a building block for employee commitment to organisational goals; (3) Reward systems should be designed to encourage ethical behaviour. A special note here is on the treatment of whistleblowers. Whether whistleblowers are rewarded or punished is indeed a very good indication of the commitment of top management to support an ethical culture.

Corporate reporting – Triple bottom line (profitability, social and environmental impact) reporting reveals sound governance of the organisation and establishes the openness of the organisation to communicate with its stakeholders. It also provides the basis for engaging constructively with the stakeholders in order to build trust and partnerships. Underlying triple bottom line reporting are the various auditing exercises (e.g. environmental impact assessment, energy auditing, product/service life-cycle assessment, and impact of operations of the health and safety of employees and public) that the organisation has to undertake.

Ecological literacy – Earlier I mentioned that the organisation that embodies universal ethical principles will also be an ecologically literate organisation. I mean by “ecologically literate” that organisation which has the capacity to “comprehend interrelatedness, and an attitude of care and stewardship”.³ Interrelatedness is better understood when the organisation is viewed as an open system. Firstly, organisations are composed by individuals who communicate and exchange information in delivering products/services to meet the needs of other individuals. At this level, interrelatedness is cast in terms of human relationships. Secondly, the organisation is a living social entity that owes its complex but ordered structure to the flux of energy and other resources that flow across its boundaries. In this picture, the organisation consumes energy, materials and labour resources to produce products/services and waste. The organisation being an integral part of life is bound by the Law of Entropy (this key concept will be the subject of a forthcoming article), and exhibits properties similar to eco-systems. At this level, interrelatedness can be cast in terms of the impact the organisation has on both society and the natural environment. In contrast to ecosystems, most organisations are unsustainable because of the imbalance between consumption of resources and production of waste. There are other complexities. For instance, will technology be the panacea of our social and ecological problem?

² Geetanee Napal, “Promoting Ethical Values in Business”, PROSI Magazine 352 (May 1998).

³ David W. Orr, *Ecological Literacy: Education and the Transition to a Postmodern World* (State University of New York Press, NY, 1992).

Technology has an important role to play, but we have to realise that real solutions are social and political in nature. Another one is globalisation, an abstract term that is over-simplified for our convenience. In our increasingly materialistic societies, consumer products travel an average of 2000 kilometres before being consumed.⁴ The exponential growth of the consumerism ideology is all too often accompanied by wars for dwindling resources and the exploitation of human beings.⁵ In this context, negative and positive externalities are geographically decoupled, and it becomes very easy to overlook the impact of business operations (and trade) on people and eco-systems. Business organisations will have to seriously look into how they contribute to the existing state of these affairs. I strongly believe that it is imperative today that organisational learning be discussed and expressed in light of an organisation's capacity to learn from the multi-faceted aspects of interrelatedness. For without this understanding we cannot expect business organisations to be socially and ecologically sustainable. An attitude of respect, care and stewardship for people and ecosystems can only entail from the wisdom of interrelatedness. In the final analysis, the foundations of business ethics and the journey to sustainability rest on being ecologically literate.

Is ethics in business worth it?

Although the development of an organisational culture that is characterised by values such as respect for human lives and enhancement of eco-systems will take effort, there are many rewards to be gained. Some long-term advantages are:

1. *A common framework* – Business ethics (through a Code of Ethics) provides a common framework for the behaviour of employees, particularly in organisations that promote employee diversity and/or operate in countries where multiculturalism is prominent. This framework provides an integrated and commonsense approach that allows employees to pull in the same direction in order to achieve the organisation's objectives. Recent empirical data has shown that, in Mauritius, employees do consider “rules of fairness as extremely important to eliciting ethical conduct”⁶, so that everyone is driven by the same values.
2. *Workplace spirituality* – This may sound quite esoteric or new age but it is not. Workplace spirituality is now studied as part of organizational behaviour.⁷ It emerges from the observation that employees derive self-esteem, recognition and respect from work that is inherently related to their personal values. Since the attitudes of employees regarding the impacts of their organisation on society and the natural environment are changing, business ethics is a vehicle to deliver this increasing discernment to employees. Organisations that develop a business ethics can expect more commitment from their employees and higher productivity in return.
3. *Strategic advantage* – There is strong evidence to indicate that companies with codes of ethics, e.g. those who are explicit about business ethics, outperform in financial and other indicators those companies that do not espouse business ethics. Research shows that the relationship between good financial performance and indicators of corporate responsibility – i.e. social and ecological sustainability – is positive.⁸ More often than not, businesses that

⁴ See the *State of the World 2004 report – The Consumer Society* (Worldwatch Institute, NY, 2004).

⁵ Lester R. Brown, *Plan B: rescuing a Planet under Stress and a Civilization in Trouble* (Earth Policy Institute, NY, 2003).

⁶ Geetanee Napal, “Ethical decision-making in business: focus on Mauritius”, *Business Ethics* **12**, 54 (2003).

⁷ Carole L. Jurkiewicz and Robert A. Giacalone, “A values framework for measuring the impact of workplace spirituality on organisational performance”, *Journal of Business Ethics* **49**, 129 (2004).

⁸ Simon Webley and Elise More, Does Business Ethics Pay? (<http://www.ibe.org.uk/DBEPsumm.htm> ; viewed on January 27, 2005)

adopt social and ecological responsibility and accountability do so by being innovative and creative, which translates directly into strategic advantage in the market place.⁹

4. *Combating corruption* – Business ethics can be used to eliminate corruption inside the organisation and in its interactions with external stakeholders. A Code of Ethics is useful to show the way through situations that are amenable to corruption (i.e. ethical dilemmas). This has special meaning for Mauritius which has seen its Corruption Perceptions Index (CPI) decrease over the past years (see Table 1) – i.e. becoming increasingly corrupted.¹⁰ Fighting corruption cannot be the preserve of the private sector alone, and reforms must be undertaken across all institutions, including the Government and the media.¹¹ Nevertheless, proactive businesses can take a leading role in combating corruption.

Year	Corruption Perceptions Index (CPI)[†]
1998	5 (rank 33 out of 85 countries)
1999	4.9 (rank 36 out of 99 countries)
2000	4.7 (rank 37 out of 90 countries)
2001	4.5 (rank 40 out of 91 countries)
2002	4.5 (rank 42 out of 102 countries)
2003	4.4 (rank 48 out of 133 countries)
† 10 (highly clean) 0 (highly corrupt)	

Summary - With people becoming more critical of the impact of business operations on both society and the natural environment, profitability will become increasingly coupled with social and ecological accountability. Businesses that develop an attitude of openness and a willingness to work with various stakeholders such as community groups, environmental organisations, not-for-profit making organisations and regulatory authorities, will keep standing when all else will have faded away. Conducting business in an ethical way is no longer anathema to declining profitability.

⁹ Michael Porter and Claas van der Linde, “Green and Competitive: Ending the Stalmate” in *Business and the Environment*, R. Welford and R. Starkey, Editors (Earthscan Publications, London, 1996), pp. 61-77.

¹⁰ Values of CPI obtained from Transparency International (www.transparency.org/surveys/index.html).

¹¹ D. Brian, “The Future of Business Ethics in Africa”, *IBER* Vol. 4, (2001).