

Ethics, csr and leadership report – "business must act ethically"

[Business](#), [Leadership](#)



1. Introduction

Given the impact businesses have on society it is integral that they act ethically in order to ensure that the needs of society are continuously being met. If businesses do not act ethically they risk losing shareholders, stakeholders and customers (The Times, 2013, p. 1). If businesses do not act ethically then they will be unable to survive in the competitive world. This is because businesses with strong ethical values are highly respected and enable better decisions to be made (Fenando, 2010, p. 110). Businesses are therefore required to act ethically in order to protect their own interests as well as those of society. This report will examine why businesses must act ethically by answering numerous questions surrounding business ethics.

2. Organisational Issues Regarding Business Ethics

This question will identify, evaluate and critically analyse the issues an organisation needs to consider with respect to business ethics. In doing so, the importance of business ethics will first be identified, followed by a review as to how businesses can ensure that business ethics are being incorporated into their business.

There is a growing need for organisations to reduce the risk of litigation by placing greater emphasis on the issues surrounding business ethics.

Businesses are continuously recognising the need to take extra care by prioritising the “the application of ethical values, including integrity, fairness, respect and openness, to business behaviour” (Institute of Business Ethics, 2013, p. 1). Essentially, organisations are now more aware than ever

that business needs to be conducted to a high standard, especially since the number of corruption allegations and subsequent investigations that have been made in recent years. Different policies and processes are frequently created so that organisations can ensure that they are conducted business in a way that minimises corruption (United Nations, 1999, p. 5). However, organisations cannot conform to proper business ethics by the creation of policies alone. They need to ensure that such policies are being implemented within the day-to-day running of the business. Corrupt agents are a major problem for many businesses (Groenendikj, 1997, p. 207) as they are not always easy to detect. Nevertheless, in order to avoid any problems arising as a result of corrupt agents and therefore mitigate the risks associated with unethical business practices, businesses should ensure that they set out the clear needs of a particular agent. Businesses should also provide explanations as to why certain means cannot be used to perform business tasks, which ought to be subject to approval from senior executives. They should also set out clear guidelines that are designed to assist proposed payments for all tasks and carry out comprehensive due diligence processes. Businesses should also ensure that they have face to face meetings with all agents that they deal with and cash payments should be strictly prohibited. The agent should also be required to sign a contract which states that they will fully adhere to the organisations anti-corruption policies and Code of Conduct.

Organisations also have to consider facilitation payments, especially if dealing with underdeveloped countries where facilitation payments are

commonplace (SFO, 2010, p. 2). Strict prohibitions should thus be in place with regards to facilitation payments, however as this is not possible in all countries where facilitation payments often need to be made, certain conditions should be attached to the payments. This will minimise the likelihood of corruption and will ensure that the organisation is operating ethically. Gifts and hospitality are further issues organisations need to be careful of as these can be seen as bribes. This occurs in situations whereby the bribe is disproportionate and thus imposes an obligation on the recipient. In avoiding situations such as this, organisations must ensure that they have clear guidelines in place for what is and is not considered acceptable as a gift or hospitality. In addition, individuals that have high level management responsibilities should provide approval before any gifts or hospitality can be accepted. If organisations are conducting business overseas they will also be required to adhere to the laws of other countries as there may be different bribery laws that exist (Healy and Ramanna, 2013, p. 1). Given that different organisations will have different rules and policies on business ethics, extra caution also needs to be taken when entering into acquisitions, joint ventures and contractors. All companies entering into new business relationships must therefore undertake ethical due diligence checks to identify whether different policies and procedures are in place (Brown and Mitchell, 2001, p. 20). If this is the case, they will then be required to come to some agreement as to how business should be conducted in order to ensure that their business ethics code is being adhered to. Although many believe that business ethics reduces competition because of the fact that

organisations will become “ soft”, it is important that all company’s do act ethically in order to prevent the company’s reputation from being damaged.

Effective ethical policies and procedures can also act as a powerful marketing tool and also helps companies ensure that they are fully compliant with the law. Business ethics improves professional standards and allows the company to see to the needs of the community, which in turn has a positive effect upon the company in the long term. By ensuring voluntary compliance with ethical codes of conduct, businesses avoid having to make drastic changes when new rules and regulations are implemented. Despite this, it is often very difficult to determine what is actually considered ethical as each organisation will have different ethical needs. However, provided that a company adopts accepted ethical standards of behaviour that reflect the nature and size of the business then business ethics will be satisfied. Ethical guidance is provided to organisations by the Institute of Directors’ guidelines and by the Institute of Management’s code of conduct and guides to professional management practice. In addition to this, all organisations are now required to state whether they have complied with the Cadbury Code of Best Practice in their annual report and accounts. Therefore, although organisations do have the right to set their own moral codes of ethics according to the nature and size of their business, they are still required to ensure that they are acting ethically in accordance with standard practice. The effectiveness of business ethics will, nonetheless, depend upon enforcement. This is because although the Cadbury Code of Best Practice states that all employees of a business are obliged to comply with the

provisions of the Code, there also has to be procedures in place which allow people within the company to raise concerns about any unethical business practices which they may have witnessed. Therefore, it is integral that applicable policies and procedures are in place that deal primarily with business ethics (Loscher, 2012, p. 2).

3. Lessons Learnt from News Corporation Scandal

This question will discuss the different lessons companies can learn from the News Corporation Scandal. In doing so, a review as to what led to the scandals taken place will be undertaken, followed by a discussion relating to the importance of ethical polices with respect to Corporate SocialResponsibility.

The 2011 News Corporation phone hacking scandals have taught businesses a valuable lesson to ensure that they have effective compliance programmes in place. This is because the scandals that took place clearly illustrated that compliance risks were not being managed appropriately, which subsequently led to corrupt practices being undertaken by the News Corporation properties. Whilst the scandal initially appeared to involve a single journalist, it soon became apparent that there was a much wider pattern of wrongdoing that took place. The News of the World newspaper was subsequently closed as a result of the scandals, which demonstrates just how serious unethical business practices are. Businesses that have personal ties to political parties are at a higher risk of being bribed and in cases such as this, it is imperative that effective controls are in place to deal with this. This could be achieved

by creating policies that deal with compliance risks appropriately and red flags should be raised by compliance departments if such relationships exist (Wrage, 2013, p. 2). In addition because the majority of employees found to be wrongdoing were at the top end of the hierarchal system, businesses must ensure that all of their employees are committed to compliance regardless as to what level they are at. Businesses could also compel their employees to take part in compliance and ethics training (Daft and Marcic, 2011, p. 153). This will not only allow the business to test its employees on compliance risks but it will also allow employees to test their abilities in dealing with ethical issues, such as bribery. Another lesson that companies can learn from the scandal is the need to undertake internal investigations on a regular basis by an independent investigator. This appears to be something that News Corporation had in place, which allowed the investigations to take place efficiently (Romm, 2011, p. 1).

Since news of the scandals broke out, it seems as though there has been a furore of internal investigations taking place across the whole industry. This is common practice for a corruption scandal and often sees organisations taking a more robust approach with their compliance responsibilities (Urofsky et al, 2012, p. 1145). Although the lessons to be learned have been known for some time, it seems as though businesses are now starting to take compliance risks more seriously than they had done previously after seeing the consequences of non-compliance (Cobert and Pascal, 2012, p. 14). It is particularly important for businesses to have in place corporate social responsibility (CSR) policies since the concept of corporate governance has

become a significant issue over the years. Many corporate collapses have led to an overhaul in the way corporations are to be regulated and as put forward by Gobert and Pascal (2012, p. 14); " it is timely to think further about how best not just to regulate but to control corporations and their directors, whether to use and in what combination, administrative, civil or criminal laws to address corporate misconduct." The Organisation for Economic Co-Operation and Development (OECD) is just one of many organisations which seeks to ensure that governments can tackle the economic, social and governance challenges that frequently emerge within a globalised economy. Nevertheless, because there are no specific rules surrounding CSR it is generally up to the organisation to ensure compliance. It has thus been said that there is a " lack of prescription as to how the company's board organises itself and exercises its responsibilities" (McColgan, 2001, p. 16). Still, the Combined Code on Corporate Governance (UK Corporate Governance Code 2010), that was issued by the FRC in 2003 does seek to ensure that good corporate governance practices are being adhered to by all companies. It is questionable just how effective this is, however, since companies can employ a different approach than that encouraged by the Code.

4. Role of Corporate Leadership in Ethics and CSR

This section will discuss the role a company's leadership should play in the promotion of ethics and Corporate Social Responsibility.

The primary feature of good governance is the relationship between the company and its stakeholders. A company's leadership therefore plays an important role in making decisions and conducting business with the interests of the company's stakeholders in mind (Bryan, 2012, p. 14). The provisions under the Code demonstrate the need for leadership; accountability; remuneration and relations with shareholders. However, it cannot be said that these principles are always being adhered to (PIRC, 2007, p. 2), yet it is apparent that compliance with the Code is on the rise. All companies need to be managed appropriately, whilst also providing accountability to its shareholders. This will certify that appropriate safeguards are in place for a company's shareholders whilst also preserving a company's ability to develop. Hence, as pointed out in the Cadbury Report (1992, p. 32); " the effectiveness with which boards discharge their responsibilities determine Britain's competitive position. They must be free to drive their companies forward but exercise that freedom within a framework of effective accountability." Accordingly, a system of good governance is important for any organisation if CSR and ethics are to be promoted. In order for CSR and ethics to be promoted an appropriate corporate structure needs to be implemented that is individually suited to the business needs as one approach will not be suitable for all. Although, this enables corrupt practices to be employed more easily, companies are still required to adhere to the Code and other legislative provisions. The UK thereby imposes duties upon all organisations to conduct business in an ethical manner, yet because of the difficulty in identifying whether this is being achieved additional strategies need to be implemented by businesses

themselves. This can be achieved by a more robust management and control system.

A number of precautions may be taken by organisations in order to eliminate or reduce compliance risks and preserve the interests of the company as a whole. This will inevitably benefit the economy overall and fewer corporate scandals and corrupt practices will be undertaken. Such precautions include risk management strategies, the conduction of regular reviews and internal investigations. As put by Ferran (2008, p. 95); “ to minimise the risk, policymakers contemplating the imposition of higher minimum capital requirements for companies generally would need to take on the complex task of designing a carefully set of requirements that achieved a degree of commensurability between the specific risks undertaken by individual companies and the amount of capital that each of them was required to hold.” All companies should therefore minimise any risks by implementing various controls that assess the risks associated with the business. CSR does help to promote business ethics to a large extent since the actions of a company will be strictly monitored under CSR policies. This will prevent unlawful and unethical conduct from taking place and will also assist in sustainable development (European Commission, 2011, p. 3). Corporate transparency is one of the most important traits a business can have since it will allow greater transparency and accountability to be effectuated. Hence, as pointed out in the Cadbury Report (1992, p. 32); “ the lifeblood of markets is information and barriers to the flow of relevant information represent imperfections in the market.” Not only will this benefit the economy but it

will also benefit the organisations as investors will be more likely to invest in a transparent company than a non-transparent one. As such, all companies should ensure that they are fully compliant and transparent when it comes to disclosing their business affairs.

5. Conclusions

Overall, in considering the recent corporation scandals that have occurred in recent years, it is imperative that all businesses act ethically by managing compliance risks in an effective manner. Because of the importance business ethics has on the community and on the business itself it is integral that policies and procedures are in place that are aimed at dealing with the main risks that are applicable to the business in question. This will ensure that the interests of the business and society are being protected. Given the increasing emphasis that is being placed upon business ethics, those that are not found to be compliant will suffer the consequences as stakeholders will not be interested in any aspect of the business. This will have a major effect upon the business as a whole which is why adequate procedures need to be in place that deals primarily with business ethics.

6. Recommendations

It is recommended that the organisation implements policies within the day-to-day running of the business so as to avoid any possible risks that may arise. When agents are being used organisations must ensure that they receive prior approval from a senior executive who will be able to perform a risk assessment as to whether there is any likelihood of corruption. When

considering facilitation payments organisations must also ensure that conditions are attached if they are a necessary requisite of the business activity. In addition, internal reviews and investigations should be undertaken frequently and appropriate training should be given to all staff on how to deal with business ethics.

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