Importance of ethics and social responsibility in the business world essay sample...

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Strategic ethics and social responsibility are two of the most important, yet perhaps most misunderstood concerns in the world of business today. By their very nature, these fields are controversial, and there is no universally accepted approach for solving their questions. On the other hand, government is encouraging organizational accountability for ethical conduct, and organisations are being asked to prevent and control misconduct by implementing ethics programs. By defining strategic ethics, we can link and compare it with the concept of social responsibility. In this way, we can examine applications in the business context, thus drawing conclusions about their roles in strategy.

Strategic ethics " comprises principles and standards that guide behaviour in the world of business" Ferrell and Fraedrich (2000: 6). Social responsibility on the other hand is the obligation a business assumes toward society. Jennings (2003: 6) defines these responsibilities as being economic, legal, ethical and philanthropic. A business' economic responsibilities are to produce goods and services that society needs and wants at a price that can perpetrate the business and satisfy its obligation to investors. The legal responsibilities are the laws that they must obey. Ethical responsibilities are defined as behaviours or activities that are expected of business by society but are not codified in law. Philanthropic responsibilities are those behaviours and activities that society desires and business values dictate.

Social responsibility then can be viewed as a contract with society, whereas business ethics involves carefully thought out rules of business organizational conduct that guide decision making. Business ethics relates to

rules and principles that guide individual and work group decisions, whereas social responsibility concerns the effect of organizational decisions on society.

The role of ethics and social responsibility in strategy

When a corporation's values and ethics support its strategy, the company's stability and success is enhanced. Ethics and social responsibility are components of strategy because every business secures its future by making a contribution. Identifying that contribution and maximizing its value is a strategic initiative. Profit is the value the market attaches to an organization's contribution and the efficiency with which it makes that contribution. Swanson (1999: 43) states that " employees who see their company making a valued contribution (with profits as outcome) rather than merely generating shareholder wealth, commit to their work with greater passion. This leads to a partnership between employees and corporate leadership that boosts innovation and uplifts performance". Ethics and social responsibility play vital roles in the preservation of this priceless partnership, which can thrive only in an atmosphere of trust and integrity. Trust and integrity result from integrating an organisation's disparate strategic objectives.

Integrating disparate corporate values

According to Meznar et al (1997: 47-49), many companies operate with at least three separate and usually non-aligned value systems. Measuring the degree of alignment between these value systems, and determining what

drives each of them, highlights opportunities for change. The three value systems are The Espoused Value System (the values that management communicates both orally and in writing); The Perceived Value System (the values that employees believe drive managements' conduct); The Actual Value System (the values that actually underpin the interpersonal dynamics of the organization). " To gain strategic advantage, these three systems must be integrated into one system of values. Furthermore, in order for these values to impact on financial performance, senior management must translate them into an ethic that supports the organization's objectives, that is aligned with its strategy and is understood by all levels of the organization".

An integrated value system takes into account the strategic objectives of the organization, the personal values of leadership and the diversity of its employees. It aligns employee perceptions with management's espoused values. A system such as this can translate into the actual ethics and social responsibilities that drive management decisions and conduct Arrow (2001: 305). Leaders often rethink their organisations values when they confront the behavioural and organizational changes that those values would compel when translated into a living ethic. They need to examine how congruent the chosen values are and how they promote or undermine the corporate intent and strategic objectives. Only then can leadership commit to a new system with all of its defined implications.

Hill and Jones (1998: 65) states that the purpose of business ethics isn't to teach the difference between right and wrong but instead to give people the

tools for dealing with moral complexity – for identifying and thinking through the moral implications of strategic decisions. The authors have compiled a four step model that managers and employees can follow for systematically thinking through the ethical implications of strategic decisions.

Step 1: Evaluate decision from ethical standpoint. Identify affected stakeholders. Are rights of stakeholders violated?

Step 2: Evaluate decision from ethical standpoint in the context of moral principles.

Step 3: Establish moral intent.

Step 4: Engage in ethical behaviour.

Ethics, social responsibility and organizational performance

Many studies have, in different ways illustrated the positive impact of ethics and social responsibility on overall organisational performance. Steidlmeier (1997: 105) states " businesses that succeed give consumers the opportunity for feedback. Satisfied customers will return, but dissatisfied ones will continue to damage the firm's reputation. Service fairness – the customer's perception of the degree of justice in a firm's behaviour – is a key element in long term business success." Epstein (1999: 114) on the other hand states " Corporate reputation has an impact on stock price and organisational productivity. Business misconduct can damage a firm's reputation. There is also increasing evidence that developing an effective

compliance program not only helps prevent misconduct, but also leads to economic productivity".

Organisational efforts in regard to ethics and social responsibility affect various organizational stakeholders – including customers, employees, suppliers, and investors. Many stockholders want to invest in companies that have strong programs in ethics and social responsibility. Employees like working for a company the can trust and consumers value integrity in business relationships. Stronger organisational ethical climates result in consumer and employee trust, employee commitment, and customer satisfaction, which in turn lead to profitability.

Conclusion

In today's business environment, no more than ever have the issues of strategic ethics and social responsibility come to the attention of managers, employees and the wider community. The spectacular collapse of companies such as Worldcom, Onetel, and HIH and more recently the demise of NRMA's CEO, serve to highlight how corporations lacking in strategic ethics and social responsibility can be negatively impacted in spectacular ways. Many studies illustrate the interrelationship between strategic ethics, social responsibility and organizational performance. Organisations optimize their productivity when employees view their work as much more than the mere trading of skills for money. To achieve this heightened commitment, organizations should integrate their values, translate them into ethics and social responsibilities, and align these with their strategies.

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