

Evaluate what  
constitutes  
responsible business  
management essay



The purpose of this report is to evaluate what constitutes responsible business discussing the diverse interpretations of this concept, relating them to a range of academic and sources to reflect the variety of views and interpretations, contrasting the topic with other related concepts such as corporate social responsibility. Examining the nature of ethical business, measuring its impacts on a business's success and the behaviour of society building an answer to whether or not ethical behaviour can create customer value and profitably. Measuring the government's role in whether or not it acts as a barrier or influencers to such practices. Concluding with a summary briefly condensing the main points from within the report forming an answer to the proposed question; can ethical behaviour create customer value and profitably?

## **2.0 Responsible Business**

The view to which business is responsible has many conflicting opinions. The generic view states that a business is responsible only to its shareholders (Friedman, 1970), implying that a company is not obliged to do anything more than to provide goods and services that society wants, maintaining its legitimacy, whereas a more recent theory expresses the need to care for both shareholders and stakeholders equally (Freeman, 1984). Research undertaken here suggests that companies will find it hard to be successful if its core values are not aligned with the core values of the society that it operates (Blowfield & Murray 2011: 50). Corporate social responsibility is a concept that many businesses have undertaken to satisfy the desires of stakeholders (see figure 2) aiming to maintain the core values that Blowfield and Murray suggest are essential for success. Having a CSR portfolio can be

financially beneficial to a company as well as creating an improved public view, such as MacDonald's reusing their cooking oil to power their trucks, reducing their emissions by the equivalent of 131 return Melbourne-London flights (Collier, 2012). Businesses that perform extensive work towards environmental sustainability, have a positive relationship with stakeholders and uphold/support universal human rights are allowed to join FTSE4Good and in some cases when the exact requirements are met are given a social enterprise mark, making your business stand out from any other. FTSE4Good aims to measure the performance of companies that meet globally recognised corporate responsibility standards, facilitating investment in those companies, standing as an example for other companies to aim to achieve, which in the view of many of modern day society would represent what constitutes a responsible business (Cicutti, 2010).

Another concept that is tightly interwoven with the term "responsible business" is sustainable development. This concept refers to development that meets the needs of the present without compromising the ability of future generations to meet their own needs (Smith & Rees, 1998). The concept of sustainable development can be broken down into 3 sections (see figure 1), when these are performed successfully they can achieve the desires of both stakeholder and shareholder alike. However the concept of sustainable development does contain some limits due to the present level of technology and social organisation on environmental resource, all depending on how well the biosphere can absorb the damaging effects of human activities (WCED, 1987, p8 in Blowfield & Murray, 2011).

### **3. 0 Business Ethics**

The ethic of individual self-fulfilment and achievement is the most powerful current in modern society. . . For many people, social progress is measured by the expansion of individual choice within this private sphere. This individualism is not just consumerist. It is also moral.

(Leadbeater, 1917)

Leadbeaters account of modern times realises the drastic change in the nature of society with the values and ethics built on the social frameworks on which we live on. Corporate social responsibility is now commonplace, alongside the growing fair trade movement, building trade relationships where the weaker party is not left at the mercy of market prices (Jones, 2000). These are now codes of conduct in most business practices, reflecting the morality of the age we live in, forming businesses that are both socially and environmentally responsible such as Body shop and The Eden Project.

The other understanding is that the social responsibility of business is to use its resources and engage in activities designed to increase its profits so long as it stays within the rules of the game (Friedman, 1970). This implies that a company can act however it foresees as long as it “ stays within the rules of the game”, achieving their primary concern of producing profits. This attitude has left society with a negative ethical base, without consideration of the social costs of private enterprise (Keller, 2007). In today’s society ethical and moral codes have become part of the policies of organisation.

Due to constantly changing competitive environments, business

organizations must find new methods to meet competition rather than the <https://assignbuster.com/evaluate-what-constitutes-responsible-business-management-essay/>

traditional ways of offering a wider range of products. Today businesses are responding to these challenges by building partnerships and more collaborative relationships with their customers (Dertouzos, 1989). In today's society it is expected that companies will be operating in a way that is beneficial for both stakeholder and shareholder in the interest of long term positive relations. Fisher and Lovell suggest that ethics is about behaving correctly and morals are about a company avoiding doing any harm. There are both formal and informal pressures such as pressure groups and laws(see figure 3) set up to stop companies from doing harm and acting in a way that is not beneficial to society as a whole. However as information becomes more easily available this is not always the case with the recent example of Starbucks only paying £8.6million in corporation tax in 14 years, despite £3 billion in sales (Chorley, 2012), customer showing their power by planning a huge boycott of all products forcing Starbucks to pay more tax, damaging the trust that was once formed between companies and stakeholders. Events such as this have contributed to other companies having a higher focus on business ethics; the financial return related to organizations operating to high ethical standards is often questioned.

Ethics to some individuals is perceived as a constraint on profitability, indicating that profit and ethics are inversely related (Bowie, 2000). There are times when "doing the right thing" can mean a reduction in profits, however businesses that have a reputation for performing ethical business can evolve into a competitive advantage. High standards of organizational ethics can contribute to profitability by reducing the costs of business transactions, creating a strong foundation of trust with stakeholders,

contributing to a higher levels of commitment and loyalty from employees creating higher product quality, with the perfect example of this being TOMS shoes, whose small 70 person workforce sold over \$18 million in 2010, working with the ethical tag line of “ one for one”, giving away a pair shoes to a third world country for every shoe sold, forming a strong loyal customer base and honourable reputation (Cook, 2010) .

The importance of business ethics to a business is discussed from many different viewpoints. The view of many managers is that ethics programs tend to be very expensive and will be only societally rewarding. However more recent analysis suggests that businesses that are well known to stakeholders as being ethical can enjoy such advantages ranging from higher levels of efficiency in operations, improved levels of customer loyalty and retention and the main objective of companies; financial performance (Ferrell, 2004). The link between profitability and ethics has been studied by many academics for years. A study summarized 52 research projects examining the correlation between profits and ethics (Donaldson, 2003). 33 of the 52 studies indicated a positive correlation with only 5 indicating a negative relationship; the other 14 reported no effect or were inconclusive. Research undertaken here suggests that is without doubt a positive linkage between the two variables.

## **4. 0 The Role of Government**

## **5. 0 Conclusions**

There will many businesses that believe that their unethical business practices will never be discovered, meaning no negative impacts for

company. However there are two reasons why it is necessary and generally beneficial for businesses to care about their ethical reputations (Business Ethics, 2003). One of the main factors being that when an unethical business practice becomes public government intervention and regulations can occur that makes more work for the business than initially self-policing in the first place. These regulations can affect the business both externally and internally in terms of labour, and financially with GlaxoSmithKline suffering a \$3 billion fine for improper marketing and unethical behaviour (Smith, 2012). Second, the most important factor is trust. Trust based on ethical reputations has been shown to have become more important in recent years and this will only increase as time goes on. Maintaining a high level of trust both internally and externally is essential otherwise businesses are certain to experience financial issues in the long term. As e-commerce in the United Kingdom is growing at 13% a year (Anthony, 2012) it is essential for businesses to keep or improve this trust as businesses are becoming geographically far-removed from their customers, meaning that customer trust based on reputation is essential for the profitability and long term growth of a business.

## **6. 0 References**