

Business Ethics

Corporate Governance and Social
Responsibility

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Summary

Business ethics has a significant development in organizations and businesses are expected to be fairer and more truthful in their activities. BE emphasizes fair business practices toward all stakeholders. Nowadays, companies decide to do it because it is right, and mostly clear to bring businesses benefits. It is important that the strategies used in companies' operations are mixed with the ethical standards and Code of conduct that can help all members to implement them conveniently.

There are a variety of examples that shows how much companies were good and bad in implementing BE. If businesses neglect to consider and implement it, they encounter serious consequences which may have been followed by heavy legal action, stricter government regulation, or boycotts by society. The root of these failures can be laid inside or outside the companies.

BE was affected by various internal and external factors. For external factors, we can mainly refer to societal pressures, investors' decisions and their priorities, and the role of regulations. For the internal aspect, we can consider the employee cultures and the role of boards in risk management consideration, internal control, setting the ethical position from the top of the company and ensuring that it becomes part of the company's culture, and identifying a baseline to measure future improvements.

The combination of all factors provides a flexible framework for companies and their stakeholders to pursue their objectives and achieve long-term success.

Introduction

The Definition of Ethics

“Ethics symbolize codes of values and principles that govern the action of a person or a group of people regarding what is right versus what is wrong. In business, ethics set standards pertaining to what is good or bad in organizational conduct and decision making” (Gheraia, Saadaoui and Abdelli, 2019).

The Definition of Business Ethics

Business Ethics “represents rules, standards, symbols or principles that provide guidance for ethically appropriate behavior in management decisions related to company operations, and working relationship with the community” (Gheraia, Saadaoui and Abdelli, 2019).

“Business ethics is the prescribed code of conduct for businesses. The discipline comprises corporate responsibility, personal responsibility, social responsibility, loyalty, fairness, respect, trustworthiness, and technology ethics. It emphasizes sustainability, customer loyalty, brand image, and employee retention.” (Vaidya, 2021).

The Definition of “Code of Conduct & Code of Ethics”

“An aspirational document, issued by the board of directors containing core ethical values, principles and ideals of the organization is Code of Ethics”.

“Code of Conduct is actually extracted from the Code of Ethics. A directional document containing specific practices and behavior, that are followed or restricted under the organization is Code of Conduct” (Surbhi, 2017)

Examples of failures

Amazon/Company type: online retailer

Tax Avoidance: “Amazon built their profit maximization strategy with avoiding taxes” (Shephard, 2018). “Although in the US Amazon now pay sales tax in every state that has one, calculations shows that if Amazon had been paying taxes from the start until 2015, it would have been \$20.4 billion”. (WILLOW, 2019)

“Amazon’s wages are lower than the average wages for warehouse employees elsewhere” (Brown, 2018). There were several reports from employees regarding “a terrifying work environment, monitoring electronically”, and worries about dismissing. “In UK warehouses there are also records of increased depression, anxiety, and suicidal thoughts in employees, alongside bullying and harassment” (WILLOW, 2019).

ASDA/Company type: Supermarket

Asda workers accused the company of gender discrimination, claiming that women are unfairly paid less than men. Asda “had limited publication of supply chain management information on its website. It had tax avoidance strategies, and for two years when it didn’t pay any tax at all”.

Regarding the environment, “ignoring phasing out use of refrigerants, which is a key source of carbon emissions in supermarkets, in addition, it also retailed petrol, and didn’t report on in significant detail” (Ethical Consumer, 2018).

Nestle/ Company type: Food processor

Nestle was subject to “the world's longest running boycott for the irresponsible marketing of baby milk to mothers in the developing world”. “The company has also been criticized for a “the use of unsustainable palm oil and genetically modified ingredients in its foods” (Hunt, 2018).

Equifax

“Equifax faced a large ethical scandal when hackers stole data from more than 148 million consumers”. After the scandal, the research team announce that “the systems that Equifax was using were old, and the security systems were out-of-date and could have been updated” (wgu, 2021).


Good examples


Employees engagement with ethics


L'Oréal: The chief executive and country managers are available “one day every year” to hear questions from staff “on any ethical matter. They help staff feel able to speak up” (FRC, 2016).

Customer communication in a crisis

“In October 2015, **TalkTalk** suffered a cyber-attack”. The perpetrators stole data of the customers, but “less than a week after the attack”, the company confirmed that the stolen data was insufficient and the police had arrested a suspect. “The majority of customers believed the company had done its best in keeping customers informed” (FRC, 2016).

 **Fairphone:** A best buy company, they are certified B Corp, use fair trade materials and they create modular phones that can be easily repaired

 **Triodos bank:** They report on climate impact of their investment, they don't invest in fossil fuel industry, strong commitment in financing renewable energy

 **Mud jeans** doesn't use any leather or any other animal derived fabrics, it has proved by Peta and B corp.(Ethical Consumer, 2022)

Seed & Bean

“Seed and Bean only manufacture chocolate that is organic and Fairtrade. Their products are also free from any palm oil”. (Hunt, 2018)

The reasons leading to business ethics failures

Top Management

Top managers who are unethical or who do activities and decisions that are unethical, expand the image that ethics don't matter (Kokemuller, no date). “Enron's downfall, and the imprisonment of several members of its leadership group, was one of the most shocking and widely reported ethics violations of all time”. “It bankrupted the company and destroyed Arthur Andersen, one of the largest audit firms in the world”. It was related to deliberately manipulating accounting rules and concealing the losses and liabilities (Segal, 2021).

Focus on Money, Profit & Cost saving

The vast majority of bad ethical decisions in companies is related to the money and filling the pockets of internal shareholders. (Kokemuller, no date). A good example can be Amazon and Asda. Taxes redistribute money in services such as education and healthcare. Not paying tax, means there's no attention to people and society. (WILLOW, 2019)

In addition, “falling share prices force owners to get rid of their shares”, that's why corporations put the shareholder value above anything else and focus on profit (Boda and Zsolnai, 2016).

Moreover, “companies don't participate in green-friendly initiatives because of the costs of acquiring new equipment”, using new procedures or laws or using new production processes. (Kokemuller, no date). In my opinion Amazon and Asda with paying minimum wage and temporary workers exploitation also try to save on costs.

Unclear Policies

Unclear ethical policies in organizations can lead them to failure, “some businesses have no formal ethical documents and offer no guidance at all, others have policies that are unclear” and ambiguous (Kokemuller, no date).

Unethical Culture

“A company's culture comprises the shared norms and values among employees”. In companies that normally represent bad ethics, employees go along with poor ethical actions and decisions (Kokemuller, no date).

“Asda is a member of the Ethical Trading Initiative which is considered positive, but it has failed to embed corporate responsibility into its operations and supply chains around the globe” (Ethical Consumer, 2018), but maybe with more strong ethical culture, it could implement the ethics correctly.

Globalization

Since companies may operate in different geographic areas and multiple industries, this poses a major challenge for companies in their implementation of BE (Gheraia, Saadaoui and Abdelli,

2019). A company can act well in terms of BE in one country, but in another country, it will encounter with lots of difficulties. For example, In Canada, “Nestlé faces boycotts for extracting water from watersheds that have seen droughts in recent years”. “After major protests, in 2020, Nestlé announced that it was leaving the Canadian bottled water market, but in UK it was the first chocolate company to introduce a Child Labour Monitoring and Remediation System (CLMRS) to tackle child labour, which has been widely admired” (Saundry, 2020). In this case and in some countries, there is no sensitivity to child labour issues.

The Weaknesses of Regulators

Creating better working conditions for Amazon employees, Asda or other similar companies needs to be enforced through laws, such as “laws on minimum wage, labour standards, and ensuring the temporary workers aren’t exploited” (WILLOW, 2019), except from enforcing, controlling and ensuring that companies are obeying the laws are important issues that should be considered.

Investor’s negligence

Nowadays, institutional investors hold the large majority of corporate shares in comparison with individuals and just look for profit at any cost. Moreover, they also stand as mediators between individuals and companies, and are rarely knowledgeable about how and where their money works (Boda and Zsolnai, 2016).

Lack of support by the society

Charities and unions can also be influential in creating better policies, laws and institutions to keep giants like Amazon at control. Amazon knows this and that’s why they prevent unionization. About customers as another part of society, “Paul Ricoeur, said about the general attitude of societies: we started to hate what we love”. People are worry “about the environment, criticize big companies and their mass products”, but they enjoy the comfort and the options of the consumer society.(Boda and Zsolnai, 2016). An example could be fashion industry with low prices and a variety of colorful and new products. The fashion industry accounts for around 10%

of greenhouse gas emission from human activity, more than both aviation and shipping combined (Cerulli, (2022b)).

The Board's role in Business ethics

What can a board do?

“Company ethics begin at the highest manager level in a company”. The top managers, in addition to establishing the vision, goals and strategies for the company, should do some of the below managerial tasks, decide about some of them and help the running of them:

- **Risk evaluation and Setting** the ethical standards and values in align with goals, business model and strategies of the company
- **Developing and documenting** the ethical framework
- **Monitoring** appropriately, ensuring that the company apply it
- The **training and communication** of the code of ethics is important (for all directors, new staff and also be available as a staff resource to support). It helps instill ethics in the culture of the company, encouraging and protecting “whistle-blowing” (Accountancy Ireland, 2017).
- Ethical behaviour should be **recognized and rewarded**. Those who breach “the code of ethics” should face appropriate action (Accountancy Ireland, 2017). “Financial and non-financial incentives should be appropriately considered” (FRC, 2016).
- **Assessing and measuring** the impact of their ethics programme and how much were successful or unsuccessful, with considering an improvement plan (Accountancy Ireland, 2017).
- **Engaging** the chief executive, senior executives, another member of the executive committee and middle managers (able to observe the culture)
- **Building trust** with stakeholders: customers, suppliers, employees and shareholders
- **Spending time** in the business to find out what is going on and show their presence (FRC, 2016)

What are the barriers?

- **Consistency Maintaining:** The consistency maintaining of values and ethical behaviour is more difficult in large companies with large number of employees and locating in different countries and where there is cultural diversity.
- **Measuring & Analyzing:** As BE is intangible and new, it would be difficult to measure it and analyze according to available systems and the nature of the BE. Moreover, companies use different tools for their analysis, that would make it difficult to compare their achievements. (Accountancy Ireland, 2017).
- **Adaptation:** Adaptation to the fast-changing environment such as fast changes in society's interests and out of companies' rules and laws, always would be a big challenge for the board. This also can be difficult regarding suppliers that may have their own set of values and working methods.

The Regulator's role in enforcing Business Ethics

Governments and regulators have historically tried to correct BE misbehaviors in the industry through regulatory reform (CFA Institute, 2017). Legal regulation of business have made some laws to help companies to fulfill their ethical tasks (Boda and Zsolnai, 2016).

For instance, according to “UK Companies Act 2006, Section 172”, “about promoting the success of the company for the benefit of its members as a whole” (legislation.gov.uk, 2022). The “UK Corporate Governance Code (the Code): define responsibility for setting the company's values and standards” (FRC, 2016). The last update, “**UK Corporate Governance Code 2018**” put emphasis on relationships between companies, shareholders and stakeholders (FRC, no date). The “Financial Conduct Authority (FCA) regulates the financial services industry in the UK”. “Its role includes protecting consumers, keeping the industry stable, and promoting healthy competition between financial service providers” (GOV.UK, 2022).

Should ethical behaviour be regulated what barriers are there?

I would like to answer this question according to examples and the type of unethical behaviours that I explained. To the best of my knowledge in some unethical behaviours such as tax avoidance, lack of transparency in financial statement, wages issues and making sustainability reporting mandatory, laws and regulations can guide people and companies toward ethical behavior, and can control them to be implemented correctly, considering heavy fines and imposing some limitations can improve the compliance with laws and regulation, but there also some problems such as insufficient resources to implement laws and lack of political support in some industries.

On the other hand, actions that are legal may not be always ethical. Sometimes governors can also ignore the ethical behaviours, in such cases maybe companies can take better decisions individually.

Moreover, I think, the regulators cannot cover all unethical behavior. Laws and regulations are not the only factor to create an ethical culture in the industry. For instance, according to the law “General Data Protection Regulations”, there’re lots of things that companies cannot do with your data unless you give approval, but the users are usually too lazy to read through the full terms of use”, then users as part of society also have an important role (Cerulli, (2022a)).

Finally, just obeying the law is insufficient as a guide for ethical behavior. Companies might encounter with a situation that is not governed by law or organizational policies and procedures (Gheraia, Saadaoui and Abdelli, 2019). In such situations, ethics go beyond enforcement, and the role of boards and employees will be more prominent.

The role of investors – how can investors influence ethical behaviour?

Today, companies are controlled and were owned more by institutional investors in comparison with individual ones. “Most of them are interested in short-term profit maximization in order to make their returns in the short run. They therefore pressure companies to focus on short-term profits rather than long-term profits. This can be detrimental to long-term company survival, as companies need to invest in long-term projects in order to ensure they grow and prosper in the long run” (Cerulli, (2022b)).

On the other hand, today “they are more involved in all areas of corporate decision making and have been encouraged to take on a more active role by the recommendations in corporate governance codes of practice and policy documents” (Cerulli, (2022b)).

Besides that, investment professionals with utilizing an ethical framework can analyze their conduct in a way that meets high standards of ethical behavior and will help them effectively examine their conduct in the context of investing.

The investors would be able to force corporations to change. Ethical investors and ethical banks would avoid bad companies while providing funding to the responsible and sustainable ones (Boda and Zsolnai, 2016). They can also decrease their investment in unethical companies, they should consider how their investment decision-making processes affect the global financial markets, innovation, job creation and hurt the economy and society in the broader context. (CFA Institute, 2017)

The role of society

Union's Support

Workers and consumer unions hold companies accountable, unions keep consumers and workers in a stronger position to negotiate, unions can ensure, they receive the benefits they deserve and aren't subject to inhumane treatment. (WILLOW, 2019).

Accreditors

Accreditors can support Ethical Consumer's work for businesses in order to to be more transparent and fairer in their policies and activities, and encourage society to buy from companies who are accredited (WILLOW, 2019).

Activists & Charities

In case of Asda about turkeys that had been kicked more than 200 times, "Viva! activists with the animal rights charity" did investigation and after investigation, "Asda stocked a small number of lines from a branded supplier and informed that it expected all suppliers to uphold comprehensive animal-welfare standards" (Ethical Consumer, 2018).

Competitors

By developing sustainable products, more companies are willing to adopt ethical standards. Competitors can force others indirectly to come up with new, innovative responses (Boda and Zsolnai, 2016)

Consumer power

"The achievements of civil society movements have contributed to a growing awareness about corporate misbehavior by ringing the bell and making scandal in numerous cases that have been the direct cause of creating several international treaties and codes of conducts" (Boda and Zsolnai, 2016)

Consumers have the ability to influence global business, like in case of "bio-products which are supposed to be healthy" or through "boycotting to force companies to comply with them" (Boda and Gulyßs, 2006).

Conclusions and Lessons Learnt

Why companies need BE

Companies do not operate in isolation. They need to make and keep successful relationships with a wide range of stakeholders. A well-written code and consistently applied and analyzed by the support of the board, will minimize risks, uncertainties and raise awareness of ethical issues among staff in situations where they may face ethical challenges. Ultimately, good ethical practice improves the company's productivity and bottom line and reduce the likelihood of reputational damage. Consequences of unethical behavior can be losing their credibility, significant fines or financial loss and most of the times it cannot be compensated with anything.

How to make companies more ethical in their activities

- ✚ Boards are liable for any unethical behaviour and practice conducted by executives or employees and should be involved in policies and procedures in the organization including the code of conduct, conflict of interest policies, whistle blowing or other reporting policies, address the organization's highest risk areas to mitigate the risk and preventing of scandals.
- ✚ More importantly, we can refer to the role of regulators in forcing the companies to implement the related laws and controlling what exactly they do. There are industry or country specific government guidelines for working conditions, product safety, and social responsibilities. The guidelines need to be followed for the smooth running of organizations.
- ✚ The social culture and power impacts ethics. If businesses fail to comply with societal norms and interests, they ruin brand image, reputation, and credibility.
- ✚ Creative positive change: some companies have solid principles that clearly make them stand out from the crowd, such as environmental alternatives: solar panels and organic fruit and veg, cooperative controls and run by the members, or sell only fair-trade product.
- ✚ Doing more for the environment and climate change, reducing greenhouse gas emission, considering animal rights, understanding it and reporting on it and updated regularly
- ✚ Putting people first: good working conditions and uphold human rights through their supply chains, ensure living wages, freedom discrimination

How to make companies more ethical in their activities?

- ✚ Transparency is a great first step
- ✚ Ethics auditing and identify problems and try to fix it. To uphold ethics, businesses must conduct internal audits and quality control checks at regular intervals (Vaidya, 2021)
- ✚ Remuneration, risk committees and HR can support boards in evaluating, incentives, values and behaviours.
- ✚ Risk taking is a significant part of developing a successful business and companies should not try to eliminate risk. Having a risk committee can be an effective mechanism for risks identification and monitoring risks.

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