
Available from Deakin Research Online: 
http://hdl.handle.net/10536/DRO/DU:30024088

Reproduced with the kind permission of the copyright owner.

**Copyright**: 2007, Institute of Chartered Accountants of New Zealand
Business ethics and the evolution of corporate responsibility

What does the term ‘business ethics’ really mean in today’s business world? Gael McDonald examines the definition of business ethics, the link with corporate social responsibility, and the development of corporate social responsiveness

Gael McDonald is Professor of Business Ethics at Unitec, Auckland.

Business ethics – what is it?

Although most of us instinctively understand the idea of ethics, it can be hard to define. Perhaps the easiest definition is that ethics relates to a set of standards by which human actions are determined to be right or wrong (Owen, 1978, p27).

But what about ethics in relation to the corporate environment? In its simplest form, business ethics can be defined as a systematic study of ethics as applied to the issues arising in business.

Many businesses may regard themselves as ethical if their legal staff can keep them safely within the law, but ethics is not only concerned with operating within, or just above, legal requirements. It involves a more detailed questioning of actions and consequences that may not be covered by law.

Business ethics has been defined by one recognised authority as:

“…the application of our understanding of what is good and right to the assortment of institutions, technologies, transactions, activities and pursuits which we call business.” (Velasquez, 1988, p1).

Ethics in business would be relatively simple if the choice was always between good and evil, but many decisions involve choosing between two or more “goods” or between two undesirable options (Johnson, 1981). This is the grey area where characteristically most ethical dilemmas arise.

Ethics is, therefore, not only a matter of legality or universal morality, but is more often related to a series of perceptions of the “rightness” involved in daily issues. Ethical decisions are often concerned with matters for which no rules exist.

It has also been suggested that a definition of business ethics should involve an understanding and appreciation of “the unspoken sentiments of fair play and camaraderie” of business. And taking this idea further, that leniency should be extended to some unethical business activities because they are largely within the context of the “game” of business – like bluffing in poker (Carr 1968, p143).

Levels of business ethics

Business ethics has three inter-related levels (De George, 1989, p337):
- the general political-economic system, which includes evaluation of the effects on society
- the business system, which considers the moral status and activities of multinationals and corporations
- the individual system, which concentrates on individual moral standards, role influences and the ethical decision-making process.

Business ethics, therefore, could be viewed as concerned with bringing morality to bear not only on individuals and business activity, but also on social policy.

At the individual level there are further layers or components in the ethical decision-making process (Bryson, 1977, p.31):
- common sense – as in children’s games – what is considered fair play and what ought to be. This component of ethics is external in orientation.
- philosophical – reason aided by reflection on human experience.
- etymological – a person’s fundamental attitude toward life, which is internal in orientation.
- religious – the direct relationship that exists between our actions and our religious beliefs.

A definition for today

We could consider the following definition of business ethics to be useful for the current environment.
- Ethics involves the critical analysis of human decisions and actions in order to determine the “rightness” and “wrongness” in terms of existing morality developed by philosophical reasoning.
- Business ethics involves the critical analysis of human decisions and actions in order to determine the “rightness” and “wrongness” in terms of not only normative values (such as truth and justice) developed from philosophical reasoning, but also such factors as current societal expectations, collective...
impact, fair competition, aesthetics and international responsibility.
(Adapted from Walton, 1977, p6)

**Stakeholder analysis**

Before moving on to consider the interaction between ethics and corporate social responsibility, it is important to take into account the role of stakeholders.

The term stakeholder is a deliberate play on the words stockholder and shareholder; and signifies that other parties have a stake in the organisation.

The stakeholder approach integrates organisational strategy with the organisation’s interests. This integrated perspective assumes that an effective organisational strategy requires consensus from key stakeholders about what an organisation should be doing and how things should be done.

The concept of a stakeholder as any group or individual who can affect, or be affected by, the achievement of the organisation’s strategy and activities, is firmly established. So, organisations that wish to act in a responsible way towards those groups or individuals who could positively or adversely affect the functioning of the business need to incorporate stakeholder analysis in their decision-making.

We could express a simple stakeholder analysis in these three steps.

1. Identify all stakeholders and their stakes in the organisation; categorise their type of stake (for example, economic, equity, cultural) and their power (for example, formal, economic, indirect, political).
2. Understand how the organisation manages its relationships with all stakeholders.
3. Consider the needs of each stakeholder and what transactions, negotiations or bargains may be required.

(Adapted from Freeman, 1984, and Elias et al, 2002.)

The evolution of the stakeholder analysis concept has largely driven the development of corporate social responsibility.

---

**Corporate social responsibility**

There are as many definitions of corporate social responsibility (CSR) as there are writers, leaving the construct fuzzy (Amaeshi and Adi, 2007). Some have even argued that it is difficult to disentangle CSR in its present conceptualisation from the grip of spin (Owen et al, 2001).

CSR fits into the general political-economic level described above under the heading “Levels of business ethics”.

CSR involves organisational accountability with regard to the immediate environment. It is described as the “generally accepted responsibilities, obligations and duties between major institutions and people” (Steiner, 1972, p8). These relationships have been called “social contracts”, and the individuals or groups with which these social contracts are made are naturally the organisation’s stakeholders (Hay and Gray, 1974).

CSR, therefore, actively recognises that organisations have obligations, duties and social contracts to fulfil in relation to their stakeholders. There are additional responsibilities placed on the organisation which it can decide to meet or not. Under CSR there is a discretionary element on the part of the organisation as to whether it will engage in socially responsible behaviour.

CSR has, in the past, regretfully been used to signify a narrow range of responsibilities, such as legal responsibility, fiduciary duty, legitimacy and charitable contributions (Zenisek, 1979). It is important to note that CSR is more than simply patronising the arts or giving to charities (Anderson, 1986, p25). Interestingly, charitable donations that are given with the expectation of marginal or even unquantifiable returns to the company, should not be viewed as pure philanthropic distributions. Of greater concern is that an organisation could be viewed as socially responsible and yet still be acting unethically.

While intuitively we recognise that CSR encompasses the moral obligations that organisations have to their identified stakeholders, some ethics researchers now consider that CSR has further evolved to what could be viewed as an even broader term: corporate social responsiveness. This is where the entire organisation acts in support of structures and processes to proactively respond to the social demands of their environment.

**Corporate social responsiveness**

To illustrate the difference between social responsiveness and CSR, a consideration of the varying levels of social obligation is helpful (adapted from Sethi, 1979, p68):

1. **Stakeholder identification – recognition of key stakeholders and their relevant stakes**
2. **Social obligation – corporate behaviour conforming only to legal requirements and competitive market pressures of selected stakeholders**
3. **Corporate social responsibility – corporate behaviour attempting to harmonise with prevailing norms, values and expectations of society (all stakeholders)**
4. **Social responsiveness – corporate behaviour that takes preventative action to avoid adverse social impact from company activities and even anticipates future movement beyond current expectations.**

---

Chartered Accountancy Journal Mar 2007
It can be seen that the fourth level – when corporate social responsiveness is reached – is less reactive and more anticipatory of the needs of current and future stakeholders.

Corporate social responsiveness also recognises that society’s norms are changing and accommodates these changes into the strategy and decision-making processes of the organisation.

Managers of socially responsive firms take a definitive stand on social issues and recognise a broadening in the accountability and role of organisations in promoting changing societal norms while maintaining the corporation as a legitimate institution in the private sector (Boal and Peery, 1985).

Conclusion

Ethical propriety and legality do not necessarily coincide – ethical behaviour exists on a plane above the law. The law merely specifies the lowest common denominator of acceptable behaviour: Legality is, therefore, not the main criterion for judging ethical behaviour.

Ethical behaviours are naturally of social importance because they influence actions and decisions that, in turn, have a social and economic impact on other members of the organisation and on the organisation’s performance.

Which term is broader – CSR or business ethics? Some writers (for example, Schermerhorn, 1986) perceive business ethics to relate solely to individual concerns, and social responsibility to the broader perspective of an organisation. Others (for example, De George, 1987, 1989) are in keeping with current thought that perceives business ethics as the more pervasive of the two terms, incorporating CSR as but one of its dimensions.

While conflicting discussion continues, a tentative distinction that could be used is that CSR refers to collective organisational accountability, while business ethics fundamentally relates to individual behaviour within an organisation. More appropriately, CSR is increasingly being viewed not as a separate arena of concern but as just one component of the broader and more encompassing term of business ethics, and with the development of instruments for the measurement of the perceived role of ethics and responsibility (Singhapakdi et al, 1996).

Essentially, organisations respond to external social obligations with varying degrees of commitment. The most significant shift occurs when an organisation becomes increasingly more comfortable with its need to adhere to prevailing norms and growing societal expectations. For some organisations this is undoubtedly motivated by the perceived financial value in such a shift.

Finally, where the social commitment is recognised as a true essence of corporate activity and is fully supported by systems and processes, we see an organisation proactively responding to current and future stakeholder needs.

In keeping with the evolutionary nature of ethical constructs it will now be interesting to monitor how this concept changes in the future.

References


