
***BUSINESS ETHICS, SOCIAL RESPONSIBILITY AND THE NEED OF AN
ETHICAL MANAGEMENT***

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Abstract: The paper argues that most of the contexts in which ethical and legal problems concerning now-days corporations occur may be solved with the help of what is called an ethics management. Actually, this concept refers to a new type of management that has as main purposes the systematic integration, coherent introversion and prioritization of ethics (moral principles, moral values and ethical behavior) within a private organization. In this sense, Keohane O. Robert defines the term of social responsibility solely as the only regulatory mean of a potential moral world by educating the agents, involved in a business or social context, with the help of ethical principles and by defining three forms of “ethical justifications” highly needed in the process of social responsibility: authorization, support and impact. The problem occurs when this limited form of ethicisation is confronted with its different limitations. In this context, an organization will need to adopt a proficient and specific structuring that follows and assumes a particular type of management: ethics management – needed to assure the organization’s economically efficient and durable functioning in the current complex business environment, by removing or limiting at maximum any unethical behaviour through the annulment of the following aspects: unfair competition, information theft, the forgery and misuse of financial documents, economical fraud, etc.

Keywords: business ethics, social responsibility, ethics management, public and private organisations, corporate ethicisation model.

The main purpose of this paper is to argue that most of the contexts in which ethical and legal problems concerning now-days corporations occur may be solved with the help of what is called an *ethics management*.

The problem from which we start our argument is the following: *Even if Corporate Social Responsibility is an ethical model that has already generalized itself in order to become a generally adopted model, how is it possible that a multitude of dilemmatic ethical and legal situations still reside amongst organisations – corporate or not, multinational or not, big or small?*

We accept, of course, the obvious fact that these kinds of behaviours have a perennial character, but it is most necessary, in our opinion, to analyse *why a great majority of private or public organisations are, in most of the cases, irresponsible and what are the main reasons for which these types of behaviours are happening?* The limits of *social responsibility* as a widely accepted ethical model are to represent the starting point of a future justification of the need of a new model, the *ethics management model*. Before proceeding to this delimitations we must point out the fact that is most common to find a hard defence in favour of the first,

especially because it is a more popular (friendly, at hand) and easy to implement model, but also because of its apparent efficiency – mostly due to a shallow comprehension of the complexity of the moral/ethical element within organisational environment, implying, thus, an even more superficial and short term solutions to the organisation’s legal and ethical problems. We argue that, in spite of its complexity and a more difficult implementation, the latter is a better “equipped” model that can offer solutions to ethical dilemmas and other organisational issues directly and indirectly linked to the moral behaviour of the organisation and its *stakeholders*¹ („*those persons or groups that influence or can be influenced/affected by the decisions, politics and operations undertaken by an organisation*”²).

In order to clarify these facts we will begin by pointing out towards an interesting argument that comes in support of our perspective; it is upheld by Robert O. Keohane in its article “Global Governance and Democratic Accountability”³. More precisely, the problem of avoiding social responsibility (avoidance due to the “will of the organisation”) or even its technical impossibility begins with the framework in which organisations develop their operations. Even if Keohane’s argument has in view the private environment in which private, often corporate, companies activate / do business, it is by no means untrue (improper) to extrapolate this argument and shift it in order to explain why social responsibility is inoperative in any type of organisation, regardless of its structure, activity domain or type of capital.

As Keohane points out this framework is actually represented by the “*global universal society*”⁴ in itself, which implies a certain moulding of structure, norms, procedures, and an according ethical behaviour. Unfortunately, even if the current modern economical tendency is directed towards a global market⁵, which includes certain complex relations between economical and social players, and also very specific multilevel interactions between stakeholders but also within organisations, it actually fails in delivering a set of “*universal accepted values and institutions*”⁶ – political, cultural, social or ethical sets.

It is mainly due to this incapacity that we cannot actually speak about a real global and universal society, but mostly about disparate interactions that take place in a macro and global level. Therefore, the only way in which we can accept the concept of *globality* is when it refers to the idea of one’s impact on the entire global environment. Nevertheless, it is not possible to assign the attribute of universality to the concept of society, especially because of this lack of common values, structures and institutions. From this perspective we can only speak about a global society which “*would exist in the context of a wider international and transnational system, in which the states, and also non-governmental actors, will play important roles*”⁷, and through a global governance, but undoubtedly without the existence of a global government.

¹ For further information regarding this subject see: Freeman R.E., Reed D.L., „Stockholders and Stakeholders: A New Perspective in Corporate Governance”, *Management Review*, Volume XXX, No. 3, 1983, California

² Post E. James, Lawrence T. Anne, Weben James, *Business and Society: Corporate Strategy, Public Policy, Ethics*, McGraw-Hill/Irwin, 2001, *op. cit.*, p. 8.

³ Keohane O. Robert , „Global Governance and Democratic Accountability”, *Ethical Boundaries of Capitalism*, Ashgate, London, 2005

⁴ Keohane O. Robert, *op. cit.*, p. 2.

⁵ A concept that does not make the point of our current article, but of fundamental importance for the understanding of the limits that social responsibility is confronted with.

⁶ Keohane O. Robert, *op. cit.*, p. 2

⁷ *Ibidem*, p. 4.

This framework represents the required base for our discussion about the limits of a social responsibility project in a global society – this latter being partially sustained by certain types of interactions, but, obviously, by no moral or ethical substratum. The economical and commercial interactions, the political acknowledgement of states or organisations, the capital turnovers at a global level, the transnational investments, a good functioning of multi-stratified economical entities, all have their roots anchored in an efficiency model, not into any particular ethical grounds – as we are often led to believe, especially by the intensive mediatisation of the *Corporate Social Responsibility* model for business ethics as the most efficient path towards moral organisational behaviour and a more profound ethical internalization. For example, a common social good, proper for any human individual, such as: world peace, a growth in the standard of living for all individuals or the assurance of a minimal sustenance level for all human beings, etc. may represent a desideratum impregnated with a powerful ethical element. A desideratum that can add a plus of moral value, but that will surely be omitted from any real public discourse or organisational project.

Some rules of organisational interaction in the global market may have a potential moral value and can be judged and evaluated accordingly to this, but they do not represent the core pylons on which the global market rests upon, nor do they represent the main elements of a coherent and all the way functional business ethics model. Among these rules of conduct (political conduct rules, business conduct rules or economical conduct rules) we find, most importantly, sets of moral conduct rules, but they are bound to operate only in a confined political space that guarantees their existence and the persistence of the morality attribute – this space is represented by the democracy⁸.

Furthermore, in our opinion and as Keohane points out also, reaching a world with a high potential towards moral behaviour is a task that implies making the “rule-benders” accountable. This *accountability process*⁹ is empowered by 3 types of culpability justifications gests (ethical justification), based on:

- 1) **authority** – an entity is authorized to act in the name of another and therefore the first can be made accountable for any immoral or irresponsible behaviour
- 2) **support** – any type of support (economical or political) given to a third party also implies its accountability
- 3) **impact** – public or private entities that have an important influence power must be held accountable for their actions¹⁰

⁸ Keohane O. Robert, *op. cit.*, p. 5.

⁹ *Ibidem*, pp. 5-6.

¹⁰ We must point out that this last type of justification is nothing else but a purely theoretical one, especially due to the fact a company or any other power holding entity couldn't be completely responsible for all the business decisions that govern their activities and, implicitly, for the totality of its activities. This maximal responsibility would merely excessively reduce the economic efficiency of one such entity or, from another perspective, would just cancel out every possible advantage that such an influence power could grant them. In our opinion, the most responsible organisations cannot be profitable, if they don't balance this responsibility with techniques and policies especially designed to facilitate the acquirement and maximisation of profit – the only problem is that, in this case, the morality of such actions must be thoroughly evaluated; it would be completely counterintuitive to have a responsible organisation, but by immoral means (see the Kantian distinction between acting in conformity with duty and from duty – Kant Immanuel, “Intemeierea Metafizicii Moravurilor”, Humanitas, Bucuresti, 2007).

The first two represent a direct form of accountability – *an internal responsibility* – while the third represents a form of indirect accountability – *an external responsibility* – because the effects of the actions can affect individuals and other entities that are outside of the system that produces them – a definition that is used to describe a classical concept in economy, that of *externality*¹¹. Most of social injustices and perhaps the gravest of the immoral behaviours are generated by the essay of avoiding the third form of moral accountability and very often is a clear mark for the dimension of the entity or organisation that tries to elude itself from social and moral responsibility. Actually, the bigger the organisation, the more power it has and the more prone it is to bend the rules and ignore every constraint – “*the capacity of avoiding responsibility for the externalities produced can be seen as a dimension of power*”¹².

There are 7 main entities and groups¹³ that tend to escape any accountability process – very often these organisations are almost irresponsible or demonstrate a very rudimentary and limited social responsibility:

- a. multinational corporations
- b. private or trans-governmental networks or sectors
- c. the Roman Catholic Church
- d. religious movements¹⁴
- e. covert terrorist networks¹⁵
- f. powerful states
- g. NGOs

The NGOs and the *multinational corporations* seem to be the entities that are the hardest to be held accountable (and after Keohane especially because of 3 key reasons: *economic influence, reduced size* and the fact they may *act in favour of concealed ends*), and they seem to share the same propensity towards the avoidance of the accountability for the resulted *externalities*. It is obvious that this is happening especially because of the same global framework that we have already presented earlier in this paper; a global environment that lacks the necessary regulations in order to impose the responsibility, but also because of the economical, social and political power that, for example, *multinational corporations* detain.

Furthermore, in the *corporations’* case, things tend to be more complex. Holding accountable such an organisation is often painstaking because of the economical obligations that it has towards its shareholders – maximising their profitability being one of them. While having the means and will necessary, they avoid the paying off the social and economic compensations that are to be paid for in order to prove their moral and social responsibility

¹¹ Concept introduced in the 1960s by James Buchanan in order to take into account the, before then, unquantifiable positive or negative effects on a third party, that remains as an economical rest resulted after a transaction between two contractual parties. For further clarifications see: Buchanan M. James și Stubblebine Wm. Craig, „Externality”, *Economica*, New Series, Vol. 29, No. 116, (Nov., 1962), pp. 371-384.

¹² Keohane O. Robert, *op. cit.* p. 6.

¹³ *Idem*, *op. cit.* p. 8.

¹⁴ Furthermore, we may add that most of the Churches and major religious cults find themselves in the same accountability impossibility, especially because of the lack of transparency and the way they interact with their environment and their *parties prenantes* (fr.) – the concept of stakeholder being unsuitable in this case.

¹⁵ Without any exaggeration, we could affirm that even the known ones find themselves in the same accountability gap.

towards society and, implicitly, a moral behaviour towards its primary and secondary stakeholders. Most of the times, the way they manage to do this is by offshoring, corporate relocation or by ending/dissolving the branch office “in danger” of being held socially and morally accountable.

In this context, the public opinion must be powerful enough to enforce the process of enforcing the moral accountability within the daily activities of such organisations, especially within the corporate entities. When and if this is the case the *stakeholders* are actually those who push forward towards corporate responsibility, for example, and thus becoming the recipient of these types of organisational behaviour. Nevertheless, multinational companies (corporations especially) are still capable of avoiding moral and social responsibility, even in the situation in which they are “trapped” between internal responsibility demands (coming from their primary stakeholders, for example: *workers’ syndicates*) and external ones (coming from public’s opinion); there is a limited coercion power due to certain “relieving” factors such as: geopolitical ones (states or regional frontiers), economical ones (see here the case of Nigeria’s diamonds and the primacy of the economical aspects in favour of other secondary aspects like ecological, social or moral ones), and legal or jurisdictional ones (the legal power is limited to a certain economical or geographical space, hence a multinational company/private organisations can either relocate or act responsibly within a confined business space, whilst other branch offices or subsidiaries can display only a formal type of responsibility).

There are still essays to enforce moral accountability at a supra-state, regional or multiregional level. Corporate Social Responsibility standards such as the ISO 26000 standards or the U.N. Global Compact standard are just two very good examples, the first being heavily promoted by the European Union in its essay to protect the states composing it from any attempt coming from, mostly private, market players to illicitly externalise business costs. But even so, this approach seems to have the same limitations as mentioned earlier, EU’s power over national interests and private organisations’ local market behaviour remains limited, not to take into account the fact that in such types of dynamic interactions the forces are to be evaluated from both ways – companies tend to react swiftly and put legal, political or economical pressure (or all at once).

But a genuine ethical behaviour (and, with it, a real moral responsibility), in order to be sustainable and prove their efficiency, must always be self-regulating (self-imposed) and adhered to on a voluntary basis. Enforcing regulations (especially when they refer to ethics) is a suboptimal and inefficient approach. In addition, a conformity model is merely a form compliance to exterior pressures with a reputational¹⁶ and image stakes, and very often fallacious in terms of means and motivations.

We must, hereby, conclude this part of our paper, by pointing out to the fact that the Corporate Social Responsibility model, being a model based solely on the *responsibility principle*, is incapable to overcome its setbacks and limitations. The morality of any one *private company* or *corporation* is conditioned by the management policies, business decisions, economical limitations and other types of direct and indirect constraints. And, to put it bluntly, nor was it developed and perfected to do otherwise. As a matter of fact, the

¹⁶ Surely not in the sense used by Adam Smith

concurrent and more proficient business ethics model – *the corporate ethics model*¹⁷ – isn't better equipped, either, to answer at fullest to these important modern demands regarding ethics and morality factors.

To say it otherwise, *even if the C.S.R. model rejects any moral behaviour as being undesirable for businesses, and has as main purpose to reduce at maximum any type of immoral behaviour, by promoting the implementation of ethics at business level, it seems that it falls short in reaching this practical desideratum.* On several important occasions, and in most real life experiences, the C.S.R. model seems incapable of finding viable solutions for the immorality of individuals or companies engaged in the business environment. This conclusion of ours is also supported by a series of studies^{18,19} made by K.P.M.G., one regarding the types and occurrence of undesirable or immoral behaviours within organisations (private and public ones) and a second meant to evaluate the occurrence and real importance of *corporate responsibility* activities or reporting – but, most importantly, the reasons for which the organisations report their *corporate responsibility*. The first, from which we use as an example the 2005-2006²⁰ one, shows that ¾ of employees have witnessed at least once an undesirable or immoral behaviour within the business environment. Most of the behaviours that occur imply: *deceiving sales practices, unfair competition, violations of terms of contract, anti-concurrence practices, information theft, document forgery and financial reports manipulations, deceiving clients, receiving and making illicit payments in view of gaining personal or group favours, influence peddling, discriminations, breaking security and hygiene safety standards, drug and alcohol abuse, violating environmental standards and putting the public at risk, sexual harassment and abuse, creating a hostile work environment, violating human rights and other rights, deceiving the public and the mass-media, bribery, and even the theft of information or goods.*

All these kind of practices, actions or behaviours have the capacity to transform the business environment into a volatile and possibly immoral environment. Mostly are occurring because of the *imposed economical targets* (economical efficiency and profitability requirements), *misunderstanding the standards of conduct, the lack of resources required for accomplishing demanded tasks, the prevalence of the results in spite of the means, the ease in which regulations, procedures, policies, or rules can be eluded.*

In conclusion, even if you have a certain framework for morality organisations and individuals ignore it, especially due to its only formal state. In reality things tend to be contrary to the image created and expectations. Even worse, in most cases C.S.R. is an umbrella concept that hides a process of “mimesis” – proven by the second K.P.M.G. study that we have referred to in this paper (study published in 2011). This latter one demonstrates that, even if most of the world's biggest companies report *corporate responsibility activities* the main reason for their moral and social responsibly behaviour is linked to reputation or brand image. Ethical reasons are being secluded, even if they rank second in this study, whilst

¹⁷ Globalization of businesses implies a globalization of morality (principles, norms, and values). This model requires dissolution of individual moral values in favor of a supra-morality.

¹⁸ Study on types of corporate behaviours

http://www.us.kpmg.com/RutUS_prod/Documents/9/ForIntegritySurv_WEB.pdf .

¹⁹ Study on the importance of *corporate responsibility*

<http://www.kpmg.com/Global/en/IssuesAndInsights/ArticlesPublications/corporate-responsibility/Documents/2011-survey.pdf> .

²⁰ In the recent years K.P.M.G. has renounced at these types of reports, but they were begun as early as 1993.

the economical ones ranking 7th on the list – companies are considering, in most of the cases, that there is no real gain in acting ethically (only 1/3 considering the opposite). To make things worse, we must stress that the study focuses on 250 of the biggest corporations (most of them listed on stock market), for the rest of them the situation is even more sombre – small companies not showing any social or moral responsibility or involvement.

There is no doubt that *corporate responsibility* (especially social and ethical one) continues to be regarded only as a PR or image exercise, which seldom brings any real value, driven by reputation only (a reputation that often suffers from the lack of transparency and credibility).

In virtue of these grim perspectives we ask ourselves: *Which are the possible solutions at our disposal in order to fully integrate ethics in this global business environment? In fact, are there any?* One or several models that could give account of and correct the morality vacuum that is already existent at a global level and also capable to transform current hesitant models into feasible, efficient and competitive solutions for *organisations* and *stakeholders*, but also society in general.

We will point out only 3 out of several possible ones, but we will show our theoretical attachments towards one only, that we consider being suitable to answer the current problems regarding business ethics and organisational moral behaviour.

The first would be to **create a meta-normative framework** that is to be used in order to evaluate, integrate and level ethics at a global level²¹

The second would be to make use of **communitarian models**, which imply applying natural emerging *norms, values, principles and convictions*, as a result of individual human purposes, within a specific social framework, without and any claim of universality, but in a way as less arbitrary as possible.

And the third, and last of which we will refer to in this article, and propose as solution to the morality gap that we have described earlier in this paper is: **the creation of a completely new management model – ethics management model**²² (a very specific, but complex management model). What we actually support is a concept that refers to a new type of management that has as main purposes the systematic integration, coherent introversion and prioritization of ethics (moral principles, moral values and ethical behaviour) within a private organization.

The *ethics management* is a model proposed by Muel Kaptein for the business domain since 1998, but which actually has its roots in the biomedical ethics since as early as the late 1940s and the beginning of the 1950s. Essentially, it is a model that reintegrates and reintroduces the ethical element in the corporate business environment by means of a structural form proper to the corporate system itself. It is a model assumes the task of rendering the organisations moral, but manages to avoid – as much as possible – the downsides of the *corporate responsibility model*.

The C.S.R. model (or its more permissive and wider accepted form: the *corporate responsibility model*), defined by the limited form of ethicisation power that we have already

²¹ Donaldson Thomas, Dunfee W. Thomas, „When ethics travel: the promise and peril of global business ethics”, *California Management Review*, Vol. 41, No. 4, 1999, pp. 45-63.

²² Kaptein Muel, *Ethics Management: Auditing and Developing the Ethical Content of Organizations*, Kluwer Academic Publishers, 1998.

stressed in this paper, represents the starting point of *ethics management*. In order for it to function correctly, organizations are bound to adopt a proficient and specific structuring (proper to only to *ethics management*) that follows and assumes this particular type of management. In exchange, the *ethics management model* could assure the organization's economically efficiency and durable (long term) functioning and development in the current complex business environment, by removing or limiting at maximum any unethical behaviour through the annulment of the problematic moral aspects and situations pointed out earlier.

Muel Kaptein defines *ethics management* as the “[...] *the systematic and coherent development of activities and the taking of measures in order to realize the fundamental and justified expectations of stakeholders and to balance conflicting expectations of stakeholders in an adequate way.*”²³. What is to be mentioned is that these expectations are of fundamental ethical nature.

Furthermore, as we have seen already, any integrity ideal or project is bound to fail if it doesn't follow a more inside-out structured approach. The moral aspect of every business must prevail and be acknowledged as a key element in the structuring of any organisation. For a company to be perceived as a moral one, and, as a result, to benefit from the business advantages that an ethically impregnated organisation. Good PR is no longer good business, but a moral business seems to be so – and only social involvement doesn't transform a corporate organisation into a steward of fundamental ethical principles and doesn't prove inter or extern moral behaviours either. This augmentation of the stakeholders' expectations (and, as a matter of fact, of the public opinion), especially regarding ethics, forces economical entities to give more attention to the way they do business and structure their core values, policies and dress their corporate governance plans or they risk losing their place on the market. Ethics must be accepted benevolently by the organisations and by its primary stakeholders (employees, managers, board, suppliers etc.) in order for it to impregnate the entire structures of any given organisations and not be rejected or limited in its implications.

In essence, *ethics management* is a model that can be more easily accepted and “digested” by the business environment and with more visible results both for business and for the public opinion. It can offer clear solutions to the limits of the *corporate social responsibility* by being able to build stronger and more efficient business ethics strategies – building a trust & ethical capital, not just an image capital. It is able to do so with the help of a series of highly specialised organisational structures for managing ethics, such as: *a code of ethics, an ombudsman bureau or ombudsperson, an ethics committee, an ethics audit and an ethics bureau*²⁴, but also by providing clear procedures and tools regarding ethics integration, formation, evaluation and decision.

In our opinion, this model is represents the key to future moral business, and like Menzel²⁵, we believe that it can offer the possibility of constructing a really ethical business (organisation) and shape a more moral and ethical sound market environment.

²³ Kaptein Muel, *op. cit.* p. 42.

²⁴ For more about the importance of these structures see also: Mureşan Valentin, *Managementul eticii în Organizații*, Editura Universității din București, București, 2009

²⁵ Donald C. Menzel, *Ethics Management for Public Administrators*, M.E. Sharpe, London and New York, 2007

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