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ACTING ETHICALLY: THE PERSPECTIVE OF THE FIRM

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Abstract
Ethics is a discipline which seeks to determine the way in which we should behave in order to lead a fulfilling life. Based on this definition, people tend think of ethics only in relation to individual actions. The aim of this paper is to create an awareness of good reasons why a business firm should act ethically. By so doing, they make it easier for their individual members to live ethical lives. Hence, they tend to acquire good reputation, win the trust of other parties and foster among its employees an attitude of commitment to the firms' interests; all these can provide sustainable competitive advantages to the firm.

Keywords: Integrity, immorally, sustainable, competitive advantages.

1. Introduction

Integrity is an uncompromising adherence to doing what is right and proper. Values such as honesty, reliability and fairness are hallmarks of integrity. Closely related to integrity are ethical issues, which go beyond what is legal or illegal to include more general questions of what is right or wrong, self-interest versus the need of others (Hoffman, 2005).

There are two reasons why the ethical quality of the firms matters. In the first place, the ethical standing of an individual is affected by that of the groups with which he is associated; thus, somebody's moral character can be sullied by his being associated with a firm which acts immorally. In the second place, the ethical values of the firm have an important influence on its ability to perform effectively (Elegido, 2000).

2. Collective Action and Individual Moral Responsibility.

Imagine a situation in which John, James and Jake are independent traders who happen to share premises but who otherwise act with total independence of each other. Imagine now that John deceives a customer by selling a poor quality good to him, it is obvious that John has acted unethically and that James and Jake are not involved in the immorality. Depending on the circumstances, James and Jake may have some responsibility to warn the customer if they are aware of the poor quality of the good, but this responsibility will be relatively weak.

Consider now a situation in which Mich, Mark and Nath are business partners and Mark and Nath know that Mich, acting for the partnership, is trying to defraud a customer in a way similar to what John did in the first example, Mark and Nath are implicated in Mich's immorality and have a special responsibility, which is definitely stronger than that of strangers, to do what they reasonably can to prevent Mich from carrying out his project. If the fraud has already been consummated , they would have a duty to do what they reasonably could to get the partnership to redress the customer's loss. Even if now Mich were to die, they would still have a duty to make good the customer's loss out of the partnership assets.

The principles at stake in these situations should be understood with precision. The root of the matter is that certain individual responsibilities derive from the fact that an individual belongs to a certain community, and they would not obtain if the individual in question did not belong to that community (Grisez and Shaw, 1988).

One such responsibility, for instance, is to do what one reasonably can to shape the policies and actions of the groups to which one belongs so that they will be ethical. Another is to take care that the group to which one belongs discharges any responsibility of restitution or redress which the group as such may have, even if this will result in the expenditure of present resources and the people whose decisions caused the harms that now has to be redressed are no longer around. Still another is to stop one's association with a group which is engaged in unethical practices, even if oneself is not doing anything wrong.

An important responsibility of individuals is to select carefully the groups with which they become associated (Naess, 1989). Specifically from an ethical point of view, one of the most important decisions of a manager is that of deciding to work for a certain firm. It is certainly an ethical responsibility of the manager to investigate the firm which pretends to hire him at least with the same zeal with which most firms investigate potential candidates. If the investigation reveals that the firm is unethical the thing to do is to look for another job (DeGeorge, 1990).

3. Ethical Standard and Business Effectiveness

Ethics is fine from the point of view of upholding one's standards, but from the point of view of business effectiveness it makes no discernible difference (Gordon, 1988). To back this view, (Sieff,1990) points out that often firms which seem honest do not succeed in business, while firms that seem to disregard ethical issues may be quite profitable. There is no denying such observations. All that they tell us is that honesty, by itself, does not guarantee business success. One should remember that brilliant strategy, consistent service to customers, or first class financial management, each by itself, does not guarantee business success either. Business success is the product of the complex interaction of many factors. Any one factor can only contribute to it not guarantee it (Sparks, 1995).

The relevant question is whether consistent ethical behaviour, of itself, contributes positively to business success. It seems clear that it does so by fostering three key ingredients of that success (Domini and Kinder, 1984 and Sparkes, 1995). Ethical behaviour contributes to the good reputation of the firm and to other parties being ready to *trust it, and it promotes* employee commitment to the success of the firm (Peters and Waterman, 1982; Teluja, 1985; Kay, 1993 and Collins and Porras, 1994). Besides contributing to business success these factors also have a desirable characteristic of not being easily imitated and therefore can provide a sustainable competitive advantage.

New products or services, organisational structures, compensation policies, exploitation of new assets, are all factors that can provide a competitive advantage. Unfortunately, however, they are easily replicated by one's competitors. On the contrary, factors like reputation, trust and commitment, in so far as they spring from the fact that a firm acts in a consistently ethical way, are far harder to imitate and can provide competitive advantages that last for decades (Kay, 1983; Sieff, 1990 and Gordon, 1988).

The way in which Reputation, Trust and Commitment are linked to a firm acting Ethically could be explained thus:

3.1 Reputation and Trust

A firm has a reputation, which in good measure depends on its past action, among all the people with whom it relates in the course of its activities. It not only has a reputation, good or bad, among its present and potential customers, but also among its present and potential employees, investors, suppliers and distributors; it will as well be perceived in a certain way by government officials, mass media, and the public. In so far as its actions have consistently sought to take into account the interest of all concerned, the firm will have won the trust of many of those with whom it relates and it will find it easier to enter into productive relations with them (Arrow,1974; Ouchi, 1981 and Gambetta, 1990). In so far as its actions have only reflected the interest of the people who control the firm, its reputation will be poor and other parties wilt tend to mistrust it (Macniel, 1980; Hart, 1988; Smith, Carol and Ashford, 1995).

That a firm has a poor reputation and is mistrusted does not entail that other parties will necessarily refuse to deal with it (Fox, 1974). All its competitors may have equally poor reputation and therefore lack of reputation may not constitute a special handicap; although a positive reputation would provide competitive advantage (Hamel, Doz and Prehal 1989; Contractor and Lorange, 1988).

3.2 Employee Commitment

This refers to the readiness of the employees to de their efforts to promoting the common interest of firm, rather than focusing exclusively on advan their own individual interests, at the cost of the fir need be (Mowday, Porter and Steers, 1982).

There is empirical evidence that empl commitment is associated with greater empl effort, lower employee turnover, and greater readi to contribute to the organisation in ways that are strictly part of the employee's job (Steers,1977; A and Perry, 1981; Mayer and Schoorman, 19 Empirical confirmation of this relationship is repo in Hunt, Wood and Chonko (1989); also in F Podsakoff and Organ (1990).

3.3 Firms for which High Ethical Standards Critical

It is clear that a good reputation, the fact of be widely trusted, and a workforce committed to firm's success will have a positive influence on alm any firms performance. For some firms, such fac are peculiarly critical. The characteristics of a fi that make it the more important for it to h reputation, trust and employee commitment are following:

a. Key partners of the firm are required to com significant resources to it in the expectation of fu performance by the firm which cannot efficiently guaranteed by legal methods.

b. It is difficult to monitor the quality of work d by the employee.

Whenever this is the case the existence of a h degree of employee commitment will be especi critical.

c. The flow of communication within the firm and between it and some of its business partners is cru to its success.

That knowledge is power is a very old insight. M people, however, fail to grasp this insight: if in g this information to somebody I am giving him pow often power over oneself -, whenever I cannot him I will be inclined to minimise the informati give to him. In other words: for a manager to re all the information he needs to make the best of possible decisions, he has to get the people position to provide that information to trust him abundant, timely, rich and accurate information essential to a business then trust - and there ethics- is also essential to that business (Culbert Macdough , 1986).

d. Large size and envisaged long life span. St speaking, a good reputation among business par does not depend on the firm being ethical, but m

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seeming to be so (Bowie and Freeman, 1992). This is true enough. Because of this, it is relatively less important - from the point of view of business success - for small firms which envisage to have a short life span to be truly committed to ethical behaviour. In such firms it is relatively easier to fake honesty and fair dealing (Jensen and Meckling, 1976).

The essential factor that links high ethical standards to business success is reputation. The degree to which a firm's business partners will trust it depends on its reputation with them, and "employee commitment" depends largely on employees being able to trust the firm for which they work, that is to say, on the firm's reputation with its own employees. It is therefore very important to realise that reputation is indivisible. Even if a firm treats very well its employees, these will not trust it if they realise that it exploits its customers or suppliers. They are bound to conclude that they are being treated well not out of firm principle, which will still be there even in adverse circumstances, but because somehow it is for the time being in the interest of those who control the firm to treat them well. Similarly, shareholders who feel well treated but who realise that creditors are being taken advantage of will not be able to trust the firm.

A firm can act unethically in any of many different areas. Examples are compliance with the law, respect of the environment, policies towards its employees, relations with customers, responsibilities towards investors, community relations, social responsibilities, competitive attitude, among others. There is no room for picking and choosing among them. A misstep in any of them will affect the overall ethical reputation of the firm with its business partners and not just its reputation as a customer, a supplier or an employer.

4. Summary

Ethics is a discipline which seeks to determine the way in which we should behave in order to lead a fulfilling life. Ultimately, being ethical means:

a. Acting intelligently (as opposed to being carried away by our urges and emotions).

b. Taking the interest of others into account (as opposed to acting in a purely selfish manner).

Acting intelligently demands that we consider carefully the best way to attain our objectives and also the value of those objectives, so that we pursue only objectives worth attaining. Ultimately the only worthwhile objectives are the aspects of human beings. By giving our intelligence the leading role in our lives we are able to take into account all relevant data, we make it possible to attain internal unity among our different ideas and feelings, and ensure that we pursue worthwhile ends.

We all have very good reasons to take other people's interest into account. If we fail to do so, we will acquire a bad reputation, we will acquire the emotions typical of a bad co-operator, we will isolate ourselves from others (their interests will become less valuable to us) and make it more difficult to initiate or sustain non-manipulative personal relationships, we will increase our tendency to be driven by feelings and emotions rather than by reason, and we will erode our self-esteem.

Business firms have good reasons to act ethically. By so doing, they make it easier for their individual members to live ethical lives. Also, by acting ethically a firm tends to acquire a good reputation, win the trust of other parties and foster among its employees an attitude of commitment to the firm's interests; all these can provide sustainable competitive advantages to a firm,

High ethical standards are more important for a business firm since the firm- a) has to do business with the partners who are required to commit significant resources without being able to obtain reliable guarantees of performance by the firm; b) is not able to monitor reliably the quality of the work of its key employees; c) needs to be able to rely on fast and accurate transmission of information within the firm and/or between it and some of its business associates; and d) is of large size and envisages to have a long life span.

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