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A. Marella Atwood
Lehigh University

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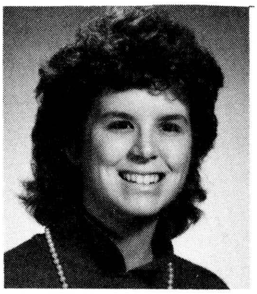

Introduction

"I know you'll do the right thing" is what our mothers always told us when we first developed the ability to make decisions. At the time that may have meant sharing our chocolate bar with a playmate or staying home to study for an exam rather than seeing a movie with friends. Whatever the issue, Mom always expected that our decision would be the correct one. We would hope that the ethical lessons of childhood would stay with us forever, guiding the paths we follow as adults. Unfortunately today this view seems to be rather naive—one belonging only to today's rare optimists.

Instead, our professional world is corruption-ridden and filled with unethical behavior. Employee theft, fraud and other unethical practices are estimated to cost American business up to $40 billion annually. These losses are in the form of money, goods, services and information. In 1985, the loss from insider fraud and embezzlement by bankers alone was $850 million. This figure rose to $1.1 billion in 1986. A 1985 survey of 113 firms in the retail industry revealed that employees were responsible for an estimated 43 percent of losses (totalling $20 billion nationwide) due to shrinkage in inventory. An often forgotten statistic is the loss firms sustain in services and costs from employees who make unauthorized phone calls ($89.5 million a year) and waste time ($150 billion in 1984). Finally, the loss of a valuable commodity—competitive information—is believed to cost companies millions of dollars in both lost sales and legal fees (Lipman and McGraw, 1988, pp. 51–55).

These types of losses harm not only the companies themselves, but also consumers, who must ultimately bear the losses in the form of higher prices. Furthermore, the damaged reputations of just a few American firms can affect the reputation of American business as a whole and make the United States a less attractive trading partner to other nations. Thus, ethics (or a lack thereof) is an issue that we as a nation must confront.

In this paper I first explain exactly what the term "business ethics" means. Then, I discuss the costs of unethical behavior to individuals, to business, and to American society as a whole. These costs are both economically and socially destructive. Finally, I show how many groups—including academia, corporate America, and government—are trying to combat these practices and to achieve higher ethical standards for future generations.

"Business Ethics" Defined

There is some debate regarding how to characterize business ethics. Ethics in general is "a mass of moral principles or sets of values about what conduct ought to be" (Vitell and Festervand, 1987, p. 111). Business ethics may be considered as "the study of decisions made by individuals within organizational roles under conditions of conflicting objectives and values" (Vitell and Festervand, p. 112). The key components of this description are the following: first, that ethics involves morals and values which are unique to every individual; second, that business ethics often involves a conflict between the goals of a company (e.g., profits) and what a person feels is "right."

When defining business ethics, one must make a further distinction between ethics in fact and ethics in appearance. The former is the actual employment of ethical behavior in business dealings, while the latter is merely the possession of an ethical reputation. An ethical reputation alone may keep a business alive in the short term; however, it is insufficient for a firm's long term success.

The Dangers of Unethical Behavior

The Threat to Firms, Workers and Consumers

Men and women who enter recognized professions such as law and accounting are required to adhere to codes of ethical conduct. These occupations, by nature, demand that ethical policies be followed. However, managers and even line-workers in the manufacturing and banking industries also face ethical questions. An assembly line worker may see a co-worker negligently failing to check every product for safety violations. An investment banker may see a fellow employee "borrowing" a client's funds to do some personal investing. A manager may learn that his superior is padding his expense account. In some of these situations, the party most likely to suffer is the company, and in others it is the consumer. In deciding what to do in these situations, employees are often guided only by personal beliefs and values; and individuals have their own diverse ethical standards.

The business climate of today is a highly competitive one. As a result, one can find stressful managers preaching to their organizations that maximizing profits, by any means and at any cost, is the primary goal. Another danger is created by the dilemma which employees at every level of the corporation may experience—the choice between acting "ethically" and pleasing one's superiors.

The role of the corporation in America has evolved from that of being solely a profit maker to that of being responsible to *all* of its stakeholders—employers, shareholders, and the public at large. Consequently, a decision such as whether to use an ingredient of the agreed-upon quality or a cheap substitute in a certain product raises the question of to whom businesspeople have primary responsibility. Unfortunately, if it meant protecting their jobs, many workers and managers would choose the cheaper material and skimp on product quality or even allow an unsafe product to be produced. In any case, today's business climate requires that each firm strike a balance between maximizing profits and producing safe, high quality products in accordance with ethical principles.

National Ethical Concerns

Ethics is a national concern, as well. The practices of individual firms reflect on the character of corporate America as a whole. Therefore, the rising trend of unethical business dealings has the potential for threatening the competitive position of our entire nation.

The values of traditional American capitalism include private property, pursuit of self-interest, market competition and minimal government interference (Samuelson and Nordhaus, 1985, pp. 25–26). This concept of business has evolved over the years to include working for the good of society. Involvement in the community has increased, and executives now place greater emphasis on how business decisions will affect society. Government intervention has at times increased due to ethical violations, but on the whole the media and the public have served as adequate checks on business. However, this may no longer be the case today. In a recent survey, the Opinion Research Corporation found that 76 percent of the public was of the opinion that business neglects the problems of society and is guided only by the profit motive (Hennessy, 1986, p. 15).

This opinion is not unfounded. The newspapers and television are filled with stories of executives cutting corners with pollution controls, of huge sums of money being paid to foreign government agents to convince them that dealing with a certain company is the wisest choice, of price collusion that robs the public. Whether a few bad apples are indicative of a nationwide ethical disease or not, public perception that the disease is widespread will only hurt corporate America more. If something is not done to alter this judgment, there will be a public outcry for greater regulation of business. And increased policing of companies by the government will harm America's international position by diverting dollars that could be better spent on product research and development.

Here again a distinction must be made between ethical reputation and ethical reality. The media, as the primary source of information, often molds public belief. And, while the media is quick to praise instances of business showing concern for society—such as cleaning up the environment or raising funds for the homeless—the media is sometimes even quicker to destroy this image by exposing unethical behavior. An ethical reputation may allow a business to achieve temporary success; however, if ethical practices are not actually followed by a company, this fact will eventually be revealed by the media. The result will be a deterioration of public support and business failure in the long term.

Conforming to ethical standards goes beyond merely following the laws set by government. The job of the media is to expose those ethical infractions which the government cannot because there have been no laws violated. In this way, business is encouraged to keep in mind the impact on society that its decisions will have. Here, the value of working toward the "common good" should be considered by business as an ethical tenet and not just a law. As a result of these factors, some businesses have determined that instilling ethical values in employees and insuring that they are followed must be given a high priority.

International Business—Increasing Vulnerability

Today there is also concern on an international scale about the ethics crisis. As business becomes increasingly international in scope, American firms are faced with new vulnerabilities that involve ethics. Difficulties arise from the fact that people in other nations have different backgrounds, cultures, languages, beliefs, and even ethical principles. The fundamental choice that businesspeople must make is whether to follow their own consciences or adapt their actions to those of the nation in which they are doing business. In other words, are American ethical beliefs universally applicable, or should American businesspeople be guided by the "When in Rome do as the Romans" maxim (Agee, 1978, p. 16)?

In some nations, government contracts are acquired through agents who conduct dealings with American suppliers. Payments to these agents for favorable consideration is a common practice. Such a practice is even considered acceptable in many countries, but it is not in line with the values of the U.S. public. However, many multinational firms feel they would be at a disadvantage in doing business if they do not participate in this form of "bribery." Therefore, it is difficult to determine whether these American multinational companies are the culprits or the victims of corruption (Schollhammer, 1977, p. 56).

Thus, it can be seen that the ethical problems facing American business today are considerable. But as the number of unethical practices being uncovered increases, action has been forthcoming from academia, big business, the United States Government, and the international sphere. The remainder of this paper is about their various attempts to ensure that ethical standards are instilled in and followed by business leaders in the future.

Solutions to the Ethics Crisis

Academia's Response

While it is clear from research that stated organizational principles guide the manner of employee decision making, there remains considerable debate as to whether or not ethical practices can actually be *taught.* Firms would obviously prefer to hire employees who already have backgrounds that include education in ethical problems. It would require less effort on the part of firms to train employees in the guidelines they should follow when forced to make a decision involving an ethical dilemma. Thus, educating business students about proper ethical practices before they enter the professional world is one possible solution to the ethics problem. To this end, businesses are turning their attention to the educators and seeking their help. Many firms have donated large sums of money to colleges and universities in an effort to establish more formal ethics education.

However, the academic world is debating whether courses in business ethics really do "pay off." In 1961, Theodore V. Purcell taught a course entitled "Management Ethics" at the Amos Tuck Graduate School of Business Administration at Dartmouth College. Ten years later, he surveyed the members of that class to determine what, if any, ethical dilemmas they had subsequently faced in their roles as executives and how the course had prepared them to deal with such issues. The study found that more than three-fourths of these men found at least some value conflicts between ethical and financial considerations in their ten years in business (Purcell, 1977, p. 52). They unanimously agreed that some value-oriented framework was necessary when confronting ethical dilemmas. One former student noted that the need to make so many clear-cut ethical-laden decisions forced him to define his ethical values more clearly (Purcell, p. 53).

How can courses in business ethics help future business leaders? First, such courses can provide students with an awareness of the ethical issues which they will face in business. As a result, the students will pay more attention to ethical considerations in their decision-making capacity as executives. Second, such courses can be helpful in formulating attitudes and thought processes. In other words, although people absorb ethical values during youth, such courses can help them codify these opinions and apply them to the complex, international world of business. Finally, courses can prepare businesspeople to deal better with issues by providing a framework in which to define and analyze many ethical problems.

If the Tuck men are at all representative of the average business student, the results of the study show that courses in business ethics can be beneficial. Purcell stated it best: "Surely the main fruit of an education is the development of the mind and the development of sensitivity toward recognizing the value problems inherent in business and life, plus learning practical methods for solving those value problems" (Purcell, p. 57).

Corporate America's Approach

Business has also addressed the ethics crisis within its own walls. The most significant way American business has found to combat its image problem so far is through the development of codes of ethics that become binding upon their employees pursuant to hiring.

In developing a code of ethics, the question arises as to the degree of impact a corporation can have in dissuading its employees from unethical business practices. One study published in 1987 entitled "The Influence of Stated Organization Concern upon Ethical Decision-Making" addressed this concern (Laczniak and Inderrieden, 1987, p. 299). In the study, 113 M.B.A. students were given one of three different baskets of materials which were supposed to characterize the corporate culture at their fictional job. The first basket contained a letter from the corporate president indicating that he was the Director of an Association for Better Business Ethics. The second included the president's letter along with a code of ethics describing the type of conduct expected of employees. The third basket of materials was identical to the second, but supplemented the code of ethics with a statement that code violations would result in dismissal. Each participant was given a set of scenarios and was asked to evaluate the situations presented and to decide how he would act. Two of these scenarios depicted illegal situations and two were unethical in nature. It was hypothesized that the greater the expressed concern in favor of ethical behavior on the part of the corporation, the more likely the participant would be to choose the legal or ethical route, respectively.

The results were somewhat surprising. With respect to the response to the situations involving legal issues, it was found that while only 18.5 percent of the group receiving the first basket of information made the "correct" legal choice, and 38 percent of the second group did so, 69 percent of the third group made this selection. This illustrates that there was a greater tendency to act in an ethical manner when the subjects received signals from the organization that such a response was desirable (Laczniak and Inderrieden, p. 301). It further indicates that the imposition of sanctions upon individuals has the greatest deterrent effect. This should be taken into account by those considering instituting a code of ethics for their companies.

The results of the situations involving ethical choices were somewhat less encouraging. Of those who received only the president's letter, 22 percent made the ethical choice. But the result was a mere 14 percent for those receiving the president's letter along with a code of ethics. The highest incidence of ethical behavior—39 percent—was exacted from the third group, whose code of ethics included sanctions. The fact that the percentage of "correct" ethical responses was so low relative to that of the legal responses leads to the conclusion that there must be a greater clarification of what constitutes unethical behavior at the organizational level (Laczniak and Inderrieden, p. 304).

The one main goal that codes of ethics are able to accomplish is that of providing a framework within which all employees—including workers, managers and executives alike—can evaluate their problems and find solutions that match the ethical culture of their organization. The essential element in developing this culture seems to be high-level corporate involvement—support from above. Many executives, if asked today where the thrust for a code originated, would identify their CEO or President. Codes can be met with hostility if merely handed down in a dictatorial manner, however. Also, the codes may be unrealistic if they are authored by parties who do not understand the daily demands placed upon the people expected to follow them. Therefore, in the development of codes of ethics, it is necessary to have input from all levels of the organization as well as from outside experts with the finished document strongly supported from the top. A "quick-fix" ethics program is a hoax. It takes time and effort to develop an effective code.

Expert help is available from the Ethics Resource Center. Many companies are turning to this non-profit group (funded mainly by corporate contributions) for guidance in the development of ethics programs. The most prevalent format for a code is the "constituency-relations statement," which enumerates the company's moral obligations to various stakeholders—shareholders, employees, customers, suppliers and local communities. Such codes underscore the commitment of the firm to the traditional values of honesty, responsibility to society, and consideration of factors other than profit maximization. Most do not, however, provide guidance for specific moral issues (Berenbeim, 1988, p. 16). Whatever the nature of a particular company's business, the Center can adapt its basic code to meet the corporation's needs.

There are several elements which the Center suggests could give a code greater impact. Such elements include formulating a "squeal clause," which rewards employees who reveal violations of co-workers; establishing an ethics program director whom employees can approach with ethical dilemmas; and promoting employees who walk away from unethical business dealings even if the result is a lowering of profits (Moskowitz and Byrne, 1985, p. 84).

Once a code of ethics is developed, there are several key requirements for making it successful. Among these are proper employee training, allowing limited employee autonomy, and maintaining strong follow-up discussions. It is important to have a manager oversee employee training during the period of implementation of the code of ethics; but it is also important to give employees the opportunity to make ethical choices guided by their own values and their own understanding of the corporate creed. In other words, a company must "strike the right balance between centralized management controls and giving employees enough autonomy to build mutual trust critical to maintaining a value system" (Byrne, 1988, p. 57).

It is important to note that the code must be expected to be followed by *all* employees of the firm. By following the motto "Practice what you preach," managers should prove their commitment to ethical behavior and the supporting code by abiding by it themselves. Lastly, ongoing educational programs at all levels within the organization must be implemented to keep employees aware of current issues and reinforce a firm's commitment of its code (Berenbeim, 1988, p. 17). Maintaining an open forum for discussion of ethical issues which arise in everyday business and for possible revisions of the code as the business climate changes is all-important. In fact, the implementation and continued reinforcement of a good code of ethics are as important as the formulation of the code itself.

National Government Response

Recognizing that a serious ethical infraction by one American firm can damage the reputation of all, the U.S. Government has taken action of its own to combat the ethics crisis. This action has taken the form of restrictive legislation and increased reporting requirements with respect to bribery activity in foreign countries.

As far as restrictive legislation is concerned, the United States is the only country to have instituted this type of action. In 1976, legislation was passed requiring U.S. companies to disclose any type of payment made to foreign officials for the purpose of influencing them. President Ford was concerned that both here and abroad public confidence in American business was being eroded due to unethical practices. The thinking was that if it became necessary to publicize such activities, companies would be more inclined to curtail them. In contrast, European governments have adopted the attitude that legislating ethics is impossible. As a consequence, they have not initiated any type of measures restricting such activities.

Rather than leave business exclusively to its own devices, the U.S. Government later decided to take even stronger action in combatting the problem of corrupt dealings with foreign governments. In 1977, Congress passed the Foreign Corrupt Practices Act (FCPA). The Act made unlawful the corporate practice of attempting to influence foreign officials through personal payments or political contributions. No other nation has passed legislation of this type. There were numerous outcries by multinational firms against the legislation. American businesses argued that they would lose sales overseas to foreign competitors and that the FCPA was an attempt to force U.S. ethical standards on nations with different cultural norms (Gillespie, 1987, p. 9). Ten years after its passage, in the face of a growing trade imbalance, there is still a corporate outcry for repeal of the Act, with U.S. businesses complaining that they have suffered greatly and have been put at a severe competitive disadvantage due to the law.

Several studies tell a different story, however. According to a 1978 study of 110 companies who were forced to stop their illegal "special payments," only one reported actual or threatened retaliation by the former foreign recipient of the questionable payments (Hanson, 1978, p. 82). Another study published in 1983 revealed that since the passage of the law, U.S. exports to "bribe-prone" countries had actually increased at a faster rate than exports to "non-bribe-prone" countries (Gillespie, p. 19).

The effects on other nations of the restrictive legislation passed by the United States have been varying. The exposure of corruption in some governments (such as Saudi Arabia) through litigation against American corporations has been met with denial. Other countries have merely ignored the allegations of the U.S. Government. However, in still other nations (such as Egypt), the revelation of questionable dealings involving U.S. companies has initiated action on the part of these governments to punish businesspeople for such behavior. Thus, although the effects of the Foreign Corrupt Practices Act may not have been universally positive, the Act may have played at least a catalytic role in bringing about reform in some nations where corrupt practices were uncovered (Gillespie, p. 24).

Reaction in the International Sphere

There exist various methods for dealing with the ethical dilemma on an international scale: international agreements on corrupt practices, unilateral restrictive legislation and regulatory measures by administrative agencies (discussed earlier), corporate codes of conduct as affirmation of company policies on international ethical issues, and intergovernmental agreements on codes of conduct (Schollhammer, 1977, p. 57). Efforts in each of these areas have been significant over the years. However, a fundamental requirement of each of these is that there exist a cooperative relationship between governments, a relationship which the United States lacks with some of its trading partners.

It is noteworthy that the General Agreement on Tariffs and Trade (GATT) was established partially in an effort to develop international agreements on corrupt practices. GATT sets and regulates the code of international conduct. On the issue of ethics, it recommended that host countries clearly define the permissible public activities of the affiliates of multinational corporations and that they also prescribe sanctions against infringements (Schollhammer, p. 58). The GATT encouraged the United Nations in its effort to exact an agreement between member nations regarding how to handle unethical practices. It was felt that a pronouncement from such a highly respected institution would strongly encourage countries to comply.

Codes of conduct have become increasingly important in providing businesspeople with a framework within which to make ethical decisions. The increasingly competitive and sometimes adversarial nature of international business has led executives to believe that tenets of "good corporate citizenship" should be made more formal (Schollhammer, p. 59). To this end, codes of conduct are being established in two areas. The first is through several international organizations devising mutually-agreed-upon and enforceable guidelines for appropriate conduct by multinational firms. Second, pressure is being brought to bear on individual companies to enforce their own in-house codes of ethical standards upon their employees *worldwide.*

Although company-specific codes are the most effective and enforceable, there have been efforts on the part of various international agencies to develop a worldwide code. The code would be expected to deal with such issues as disclosure of information, interfirm competition, and employment and industrial relations. It is somewhat questionable, though, whether such a broad code, unsupported by legal sanctions, will have any real impact on corrupt practices or whether countries will merely pay lip-service to it.

Conclusion

Business ethics may well be the "vogue" issue of the '80s in corporate America, but the attention given it is certainly warranted. The continuing exposure of national and international scandals involving American companies is disheartening to say the least. Ethics needs to be a top priority for today's businesspeople.

There are a multitude of dangers created by unethical practices. These risks begin with a lineworker who improperly prepares a product for market which is unsafe or lacking in minimum quality because he had a deadline to meet. If the infraction is uncovered, his firm may receive a negative public reaction and perhaps no longer be trusted. Also, when the reputation of one American firm is tarnished, it may reflect upon American business as a whole. Thus, the lack of ethical standards becomes a national concern which results in the threat of increased government intervention and regulation. The final detrimental consequence of unethical practices is a possible decline in international competitiveness. If American businesspeople are considered to be corrupt in their dealings, potential customers in other nations may look elsewhere for trading partners.

In recognition of these dangers, powerful economic forces are at work in the hope of finding solutions to the ethics crisis. First, as business realizes the greater need for training in the area of business ethics, it is turning to the academic world and asking educators to incorporate courses in business ethics into their curricula. Although some may be wary of the usefulness of this inclusion, there is evidence which shows that such courses provide a good background for executives and help them to develop a framework within which to judge ethical issues which arise in their daily activities. Second, corporate America is trying to "heal itself." To this end, ethics programs which include codes, seminars, and discussion groups are being developed by employees at all levels in the organization.

Although other countries may not place as great an emphasis on the issue of domestic and foreign corrupt practices, the United States finds such corruption to be of primary concern. The Government has increased reporting requirements for ethical infractions and (through the Foreign Corrupt Practices Act) made it clear that payments to influence foreign agents constitute unacceptable behavior. In a more positive vein, the U.S. is cooperating with the United Nations and other international bodies to develop a universally accepted code of conduct for business dealings.

It is the opinion of this author that the most effective solution to the ethics crisis is through corporate codes of conduct which are properly implemented and aggressively enforced. This is so for several reasons. It is easier to develop more specific ethical standards when the context in which they will be applied is known. Individual firms are better able to design codes to deal with the ethical dilemmas unique to their situations while codes developed by the government or international bodies are likely to be too broad. Also, firm codes are easier to implement, because managers at every level can explain to their subordinates how to apply them. Lastly, corporate codes of conduct are the easiest to enforce. Managers are in a better position to oversee their workers and recognize when an infraction has occurred. Also, instead of going through the costly and time-consuming legal process which national or international action would require, individual firms can deal with infractions immediately and use violators as an example to their fellow workers of the consequences of unethical behavior.

Regardless of how the ethics crisis is dealt with, there will always be those who are more inclined to do wrong than right. However, we can only hope that with increased training and education, their numbers will diminish.

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