كلية الخليج
GULF COLLEGE

CONTEMPORARY MANAGEMENT ISSUES

WEEK 6

BUSINESS ETHICS & CONTEMPORARY MANAGEMENT TOOLS

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LEARNING OBJECTIVES

Learning Objectives:

At the end of this topic, you are expected to:

1. Describe the evolution of business ethics management in view of the emerging focus on managing the overall social role of the corporation rather than focusing on employee behaviour;
2. Understand the development of social, ethical, and environmental accounting, auditing, and reporting tools and analyze its contribution to managing and assessing ethical performance, and promoting corporate accountability; and
3. Examine different ways of organizing for the management of business ethics, and critically assess the role of organization culture and leadership.

BUSINESS ETHICS MANAGEMENT

Business Ethics Management:

It is the formal and informal managing of ethical issues or problems through specific policies, practices, and programmes.

COMPONENTS OF BUSINESS ETHICS MANAGEMENT

Typical components of business ethics management

• **Mission or values statements** – *refers to general statements of corporate goals, philosophies, and values. Most corporate mission statement do not have much impact on employees behaviour.*

COMPONENTS OF BUSINESS ETHICS MANAGEMENT

- **Code of ethics** – *refers to explicit outlines of what kind of conduct is desired and expected of employees from ethical point of view within on organization, profession, or industry.*
- **Reporting/advice channels** – *the manner by which management can effectively gather information from its stakeholders on vital ethical issues.*

COMPONENTS OF BUSINESS ETHICS MANAGEMENT

- **Ethics managers, officers, and committees** – *refers to specific individuals or groups appointed to manage ethics in the organization.* This is an evidence that most corporations nowadays recognize the importance of business ethics.
- **Ethics consultant** – *other companies who cannot afford to hire full time ethics managers or to appoint ethics groups are using third party ethics consultants.*

COMPONENTS OF BUSINESS ETHICS MANAGEMENT

- **Ethics education & training** – *aware of the prevalent significance of business ethics, some companies now are becoming open to ethics education and there are now services firms providing ethics training.*
- **Stakeholders consultation, dialogue, and partnership programmes** – *organizations are now even considering advices and consultation from its business stakeholders in matters of ethical issues.* These come in the forms of forum, industry-professional-association programmes.

COMPONENTS OF BUSINESS ETHICS MANAGEMENT

- **Auditing, accounting, and reporting** – *activities aimed at measuring, evaluating, and communicating the organization's impacts and performance concerning social, ethical, environmental issues of interest to their stakeholders.*

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COMPONENTS OF BUSINESS ETHICS MANAGEMENT

Three main areas of managing business ethics

1. Setting standards of ethical behaviour;
2. Managing stakeholders relations;
3. Assessing ethical performance.

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COMPONENTS OF BUSINESS ETHICS MANAGEMENT

1. **Setting standards of ethical behaviour:** Designing and implementing code of ethics.

   Code of ethics (code of conduct to some) – *are voluntary statements that commit organizations, industries, or professions to specific beliefs, values and actions and/or set out appropriate ethical behaviour for employees.*

Examples:

- **Organizational code of ethics**
- **Professional code of ethics**
- **Industry code of ethics**
- **Group code of ethics**

COMPONENTS OF BUSINESS ETHICS MANAGEMENT

2 - **Managing stakeholders relations:** *giving emphasis to stakeholders interests with special attention to different ways of managing them and the benefits of doing so. Identifying which stakeholders have most critical impact to its survival.*

COMPONENTS OF BUSINESS ETHICS MANAGEMENT

3 - **Assessing ethical performance:** *includes three key relationship attributes perceived to be important to managing stakeholders interest.*

- **Power** – *the perceived ability of the stakeholder to influence organizational actions.*
- **Legitimacy** – *the perceived stakeholders actions to be desirable, proper, and appropriate.*
- **Urgency** – *the perceived immediacy of stakeholders claims.*

SOCIAL ACCOUNTABILITY

Social Accountability – *is the voluntary process concerned with assessing and communicating organizational activities and impacts on social, ethical, and environmental issues relevant to stakeholders.*

SOCIAL ACCOUNTABILITY

Social accounting, *unlike financial accounting, is not required by law but more accountable to the society.*

Likewise, there is no standard process in measuring or auditing social accounting because the norms are in the philosophies and values of every type of stakeholder.

They are more qualitative than quantitative. Hence, organizations have to develop its own way of assessing or measuring social accountability based on the popular 'triple bottom line'.

SOCIAL ACCOUNTABILITY

Why do organizations engage in social accounting? – *the are countless reasons why organizations need to show their social accounting performance. However, they are grouped into the following three reasons:*

1. *To respond to internal and external pressures;*
2. *To improve stakeholders management; and*
3. *To enhance accounting and transparency.*

SOCIAL ACCOUNTABILITY

What makes a good social accounting? – *Zadek et al (1997) proposed the following principles to measure quality of accounting:*

1. **Inclusivity** – *mutual communication to/from stakeholders;*
2. **Compatibility** – *comparison across different periods and benchmarking with other organizations.*

SOCIAL ACCOUNTABILITY

3. **Completeness** – *all areas of the organization should be included in the measure;*
4. **Evolution** – *demonstrate commitment to learning and growth;*
5. **Management policies and system** – *performance are consolidated, controlled, and evaluated.*

SOCIAL ACCOUNTABILITY

6. **Disclosure** – *involve complete transparency of accounts and reports;*
7. **External verification** – *performance verified by external body trusted by the stakeholders;*
8. **Continuous improvement** – *commitment to continuous innovation and change.*

SOCIAL ACCOUNTABILITY

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Social Accountability Tools & Approaches

SA8000 – *measures key labour rights (e.g. working conditions, forced labour, compliance to EEO rules). SA8000 certification is awarded to organizations after thorough audit.* *www.sa.intl.org*

GRI (Global Reporting Initiatives) – *multi-stakeholders that measures the 'triple bottom line' of sustainability.*

AA1000S – *reporting assurance designed to be consistent with GRI principles.*

BUSINESS ETHICS MANAGEMENT

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Organizing Business Ethics Management

There is already an attempt to consolidate these three global tools to an interlocking principles so that the measurement of corporate social accountability can work hand-in-hand with global CSR.

The initiative has been acceptable in USA but not in Europe as it has not been implemented owing to the differences in business cultures and practices.

BUSINESS ETHICS MANAGEMENT

Formal Ethics Management

Treviño et al (1999) proposed four ways of formal organizing business ethics management as follows:

Compliance orientation – *emphasis on protecting, detecting, and punishing violators of the law.*

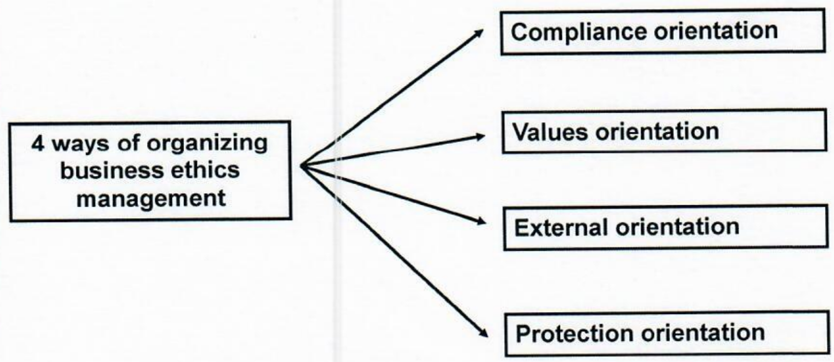
Values orientation – *defining organizational values as anchor or ethical decision-making.*

External orientation – *aims to satisfy external stakeholders*

Protection orientation – *towards protecting top management from blame for ethical problems.*

BUSINESS ETHICS MANAGEMENT

Formal Ethics Management



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BUSINESS ETHICS MANAGEMENT

Informal Ethics Management

Again, the Americans initiated an informal ethics management by way of culture change. However, as always the Europeans has difficulty implementing cultural transformation owing to differences in European cultures.

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BUSINESS ETHICS MANAGEMENT

Business Ethics Management: ***a role of leaders***

Whether it be formal or informal way of managing business ethics, the success or failure depends mainly on the leadership of the organization. Even if there is complete systems in place if the leader is ruthless, there can never be any successful ethics management.

SUMMARY & CONCLUSSIONS

In this lecture we learned both formal and informal ways of managing ethical issues. We have shown that the most glaring example of corporate compliance to ethical issues is the existence of corporate code of ethics that normally include the following:

- Reporting and investigation policy and procedures;
- Auditing and accounting compliance;
- Setting standards of ethical behaviours;
- Managing stakeholders relations;
- Evaluating ethical performance
- Managing social accountability

TUTORIAL

Read the case study "Shell Shock: has Shell moved towards a new way of managing business ethics?"

Case #5, page 176-180. Crane A & Matten D (2003) *Business Ethics: European Perspective.* Oxford University Press Oxford.

Answer the following questions:

1. How would you describe Shell's overall strategy of business ethics management? To what extent are each of the elements used by the company complementary to this strategy?
2. Describe the different stakeholder relationships revealed in the case. Using the instrumental perspective on stakeholder importance described in this chapter, how would you rate the apparent importance of each of Shell's stakeholders here? Do you feel that Shell has gone far enough in its attempts to turn around its approach?

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