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## **BUSINESS ETHICS AND CORPORATE IMAGE (\*)**

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For a long time business and ethics were considered to be opposite concepts. The old saying “business is business” described a situation in which being ethical meant losing money. Ethics was understood as something that couldn’t be afforded, a luxurious element that had a mainly cosmetic use. Today business ethics is part of corporate life and we cannot understand corporate management without the concept of business ethics, a concept that also plays an important role in the construction of a good corporate image. The European Parliament and the OECD (Organization for Economic Cooperation and Development) are now working developing codes of ethics. The President of the World Bank has launched a new policy on ethics and corporate social responsibility and has opened an office of Business Ethics and Integrity. Several European banks have social and ethical audits, environmental reports or ethical investment funds. All these examples tell us that something has changed.

If we look for the reasons why business ethics has become so important, Brooks<sup>1</sup> gives several good explanations:

- a) Society does not trust companies so they have to rebuild their legitimacy
- b) There is a demand for a higher standard of life which increases the expectations that we put on companies
- c) We demand that executives do not act solely for the benefit of the owners
- d) Companies are powerful organizations so there is a need to regulate and articulate the interests of different groups.
- e) Information on all these matters is now more widespread and public opinion pays more attention to them
- f) The aims of companies are becoming more complex and cannot be reduced to short-term benefits.

But the idea of ethics is very broad, so I think it is important that we share a precise definition of business ethics in order to establish the factors that will enable us evaluate the ethical commitment of a company and how this commitment affects its image and reputation.

The development of business involves the satisfaction of the different interests held by various groups, the so-called stakeholders. To satisfy these interests a kind of moral contract is needed. For a definition of business ethics, we could say that a company’s ethical performance is acceptable when, being conscious of the multiple dimensions of this contract, it consequently assumes in its culture and its management that it has to be responsible to stakeholders according to the intensity and degree of their influence.<sup>2</sup> Business ethics is therefore a field that integrates philosophy, management and

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<sup>1</sup> L.J. Brooks. “Corporate Codes of Ethics”. *Journal of Business Ethics* 8/2-3. 1989. Pp. 117-129

<sup>2</sup> Domingo García Marzá. “La ética empresarial como factor reputacional”. In *El estado de la publicidad y el corporate en España*. Madrid: Pirámide, 2000. Pp.: 221-228.

organizational theories and practices. It involves ethical reflection on three levels: the economic system, the organization and the behavior of individuals.

Because of the impact that business ethics has on their reputation and performance, corporations are more and more interested in running their business ethically. A recent research conducted by the IESE<sup>3</sup> shows the situation of business ethics in Spain.

- 71% of the companies have formal documents regarding business ethics
- 64 % of the companies drew up their documents after 1990
- When companies were asked about the kinds of documents that they have the answers were:
  - Mission statements 69 %
  - Credo, or statement of their values 47 %
  - Code of behaviour 65%

The reasons these instruments are used are:

- To spread their corporate philosophy
- To present a public compromise
- To support human development

64 % of the companies only distribute these documents inside the company, whereas the remaining 36 % distributed them both internally and externally.

Companies feel that these instruments have a great impact on several aspects:

- Supporting corporate culture 5,8/7
- Forming corporate policies 5,4/7
- Improving corporate image 5,2/7

In addition to these documents, there are other instruments that corporations use for business ethics:

- Periodic Audit 36 %
- Seminars 25 %
- Specific department 15 %

Returning to the definition of business ethics, there are three key elements to explain the meaning and complexity of this concept: corporate social responsibility, stakeholders and corporate culture.

### **Corporate Social Responsibility**

The classical view of business says that the right to make a profit is unlimited. Critics of this view argue that corporations have certain obligations like the obligation to avoid harm or the duty to help solve social problems. Perhaps the most famous statement of the classical theory of business on corporate social responsibility is the one made by Milton Friedman in an article entitled "The Social Responsibility of Business Is To Increase Its Profits". He asserts that in a free society "there is *only one* social responsibility of business – to use its resources and engage in activities designed to increase its profits as long as it stays within the rules of the game, which is to say, engages in open and free competition without deception and fraud<sup>4</sup>. According to Friedman the forces of a free market will efficiently solve most economic problems and corporations have no right to spend shareholders' money to support charitable causes. In his view, this effort would

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<sup>3</sup> Doménech Melé, Elisabet Garriga y Manuel Guillén. *Políticas de ética empresarial en las 500 mayores empresas españolas*. Working paper 00/4. Barcelona: IESE, 2000.

<sup>4</sup> Milton Friedman. "The Social Responsibility of Business Is To Increase Its Profits". *New York Times Magazine*. September, 13<sup>th</sup>. 1970 p.126.

be to tax shareholders without the elaborate constitutional, parliamentary and judicial provisions to control these functions.

I don't think that many companies would uphold these ideas in public today because society considers the corporation as a citizen. Corporate citizenship is "the acceptance of the corporation's role as a responsible and significant member of its community"<sup>5</sup>. But there are all kinds of arguments in favour of and against Corporate Social Responsibility<sup>6</sup>.

AGAINST	IN FAVOUR
<b>ECONOMIC ARGUMENTS</b>	
<ul style="list-style-type: none"> <li>- It reduces efficiency because it gets away from the main purpose and imposes additional costs.</li> <li>- Somebody will have to pay for that cost.</li> <li>- Modern society goes by specialization and most companies are not specialized in solving social problems.</li> </ul>	<ul style="list-style-type: none"> <li>- Can be considered as an investment, since it promotes benefits in the long term (gains public trust, builds a good image and improves de conditions of local communities).</li> <li>- It is a correction of the problems and costs that companies create to society.</li> <li>- It applies resources and capacities, that often only companies have, with the purpose of solving social problems that would be otherwise very difficult to solve.</li> <li>- It is a way of corresponding to the interests of the shareholders: CSR implies a long term perspective and the shareholders don't expect just to make a profit (they are also consumers, citizens and members of the community).</li> </ul>
<b>MANAGEMENT ARGUMENTS</b>	
<ul style="list-style-type: none"> <li>- Creates confusion inside the company, since it spreads different aims and criteria and it disperses energy.</li> <li>- Employees have not been trained to make decisions in CSR.</li> <li>- It does not make sense to think that corporations that create certain problems will also solve these problems and the fact that they</li> </ul>	<ul style="list-style-type: none"> <li>- Self-regulation goes together with decision-making processes and with management abilities.</li> <li>- Corporations have management abilities that are not found in governments, so they can solve certain problems at lower costs and more efficiently.</li> <li>- Being socially oriented makes companies more proactive than</li> </ul>

<sup>5</sup> Michael B. Goodman. *Corporate Communications for Executives*. Albany, NY: State University of New York Press, 1998. P. 113.

<sup>6</sup> See Josep. M. Lozano. *Ética y empresa*. Madrid: Trotta, 1999; J. R. Boatright. *Ethics and the Conduct of Business*. New Jersey: Prentice Hall, 1993; A.B. Carrol. *Business and Society. Ethics and Stakeholder Management*. Cincinnati: South-Western Publishing, 1989; T. Donaldson. *Corporations and Morality*. New Jersey: Prentice Hall, 1982. W.C. Frederick et al. *Business and Society. Corporate Strategy, Public Policy, Ethics*. New York: McGraw Hill, 1988; G.A Steiner and J.F. Steiner. *Business, Government and Society. A Managerial Perspective*. New York: Random House, 1988.

are more or less socially responsible is determined by their business structure.	reactive (they have to anticipate social demands which is more practical and less expensive).
<b>POLITICAL ARGUMENTS</b>	
<ul style="list-style-type: none"> <li>- Letting companies get into that kind of social involvement means giving them too much power.</li> <li>- There are no mechanisms to control social actions of corporations so CSR could be considered as antidemocratic, since there is the risk of some kind of business tyranny. There will be a new space for government regulation.</li> <li>- CSR is against the law because executives are mere employees and must be at the service of shareholders.</li> </ul>	<ul style="list-style-type: none"> <li>- If corporations are socially responsible they will prevent the government from regulatory intervention, and will contribute to social pluralism.</li> <li>- CSR reinforces cooperation between corporations and governments.</li> <li>- Regulation follows society and does not anticipate it, so we can not expect that the need for CSR will be determined by legislation.</li> </ul>
<b>SOCIO-CULTURAL ARGUMENTS</b>	
<ul style="list-style-type: none"> <li>- Emphasizing SCR puts too many expectations on companies, sometimes impossible to satisfy.</li> <li>- Social values don't have to be determined or interpreted by corporations, because they would become social dominant institutions.</li> <li>- We don't have to trust corporations: Their discourse on CSR might just be a way of improving their image.</li> <li>- Social pluralism implies that there will be different standards to measure who is socially responsible and who is not.</li> </ul>	<ul style="list-style-type: none"> <li>- CSR is an answer to cultural and social change so it increases the acceptance of corporations activities, because society is more and more aware of the power of corporations and is less inclined to accept groups not using its power with responsibility.</li> <li>- It seems that industrial society has human and social problems connected to the existence of big corporations, and this means that companies, as part of that society must make an effort to solve them.</li> <li>- Companies are social institutions and they must live according to social standards: if society has changed its expectations and demands, companies must behave consequently.</li> </ul>
<b>MORAL ARGUMENTS</b>	
<ul style="list-style-type: none"> <li>- CSR takes responsibility from individuals onto companies.</li> <li>- There is no consensus on what values are socially desirable.</li> <li>- CSR is against property rights and association rights.</li> </ul>	<ul style="list-style-type: none"> <li>- Moral criteria have priority over economic criteria</li> <li>- Executives, as citizens, must contribute to social and human development.</li> <li>- The market includes some basic moral rules.</li> <li>- Corporations must consider not only purposes but also the means that are use and their impact.</li> </ul>

## The Stakeholders

In a way, Corporate Social Responsibility is an answer to the previous understanding of the power that corporations have in our society. In order to understand business ethics we have to reflect upon how that power is used and over what groups it is applied. This is no easy task since that power has multiple manifestations (economic, cultural, social, technological, environmental, political and so on) but even so, a definition of the concept of stakeholder is in order. The stakeholders are formed by the myriad of individuals, groups and institutions that have any kind of relationship and interest in the corporation. But on the other hand, we could say that stakeholders are not only the groups capable of making it possible for the company to achieve its goals, but also those groups without whose support the organization would cease to exist.

From an ethical perspective a corporation must elaborate a map of stakeholders to find what kind of interest and power they have and see what is the company's interest in them. Once that analysis has been made the corporation should try to harmonize those interests. Every stakeholder has a specific interest (which may sometimes be opposed to the interest of other stakeholder's) and the company must have a balanced relationship with all of them, a relationship that is morally acceptable.

I have tried to summarize the stakeholders map and their interests in the following chart:

Shareholders	To make a profit Transparence, Participation, control
Executives	Capacity to make decisions Career development, power, prestige, good income
Employees	Fair wage, decent working conditions, rights to privacy, liberty
Customers	Product quality and safety, fair prices, truthful information Truth in advertising
Competitors	Fair play, honour contracts
Government	Protect general welfare, rights of citizens, rights of employees, compliance with regulations
Local Community	Economic and social development Cooperation with social, cultural and educational institutions
Social Groups	Respect and improvement of the environment Consumer safety
Mass Media	Transparency and information of interest

I agree with Bowie and Duska when they affirm that "business has a primary responsibility to make a profit, but in doing so cannot resort to coercion or fraud, and must respect the rights of all those who have a stake in the business, treating them justly and fairly, compensating for past injuries, doing no harm, and, when required, preventing harm"<sup>7</sup>.

## Corporate Culture

To explain the meaning of business ethics we need to define the concept of corporate culture, which is the social construction of an organization's identity. It is a system of

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<sup>7</sup> Norman E. Bowie and Ronald F. Duska. *Business Ethics*. Second Edition. New Jersey: Prentice Hall, 1992. P. 42.

values and symbols, more or less shared, historically determined that implies a certain way of responding to the organization environment. Corporate culture is also a self-image of the organization and a sort of corporate ideology. According to Andrew Mayo, corporate culture is made up of six components: values and beliefs, rules of behavior, written policies, ways of motivation, formal and non-formal processes and internal networks. A good definition of corporate culture is this sentence: *The way we do things around here* <sup>8</sup>.

Corporate culture can fulfil four objectives<sup>9</sup>:

- It is an element that helps in the construction of the organisation's identity (it makes a difference and favours a consensus over the mission)
- It unites the organization, identifying its members, making them feel proud of belonging to the organization, legitimizing forms of power and determining appropriate ways of learning.
- It favours involvement in the organisation's project (it brings corporate values and interests closer to the values and interests of employees, it promotes participation and emotional attachment to the organisation)
- It determines the internal climate (working conditions, balance between results and rewards, problem solving methods)

To define the essence and objectives of corporate culture I have used terms like: values, philosophy, rules, behavior, power, codes, representation... All these concepts are very close to the semantic field of Ethics and there is no doubt that a certain corporate culture always implies some kind of ethical positioning. Perhaps the clearest manifestation of the relationship between culture and ethics is the existence in many corporations of codes of ethics. There are three different kinds of codes of ethics: Professional codes, Industry codes and Business codes. I will concentrate on this third type.

A business code of ethics is an instrument to set up the values, rules and decision making criteria that define and regulate the mission and performance of a corporation. A business code of ethics can serve different purposes. García-Marzá makes a distinction between internal and external purposes<sup>10</sup>:

#### INTERNAL

- It contributes to create a corporate culture and an ethic climate that reinforces the identification of all the members of the organization with the project.
- It provides guidance and a stable reference to eliminate ambiguity in decision making processes.
- It defines the rights and obligations of all interest groups and the commitment of the company to satisfy all internal interests at stake.
- It creates and develops confidence.

#### EXTERNAL

- It serves to communicate the identity, aims and public image of the corporation
- It explicitly formulates the commitment of the company towards customers, suppliers and competitors.

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<sup>8</sup> Andrew Mayo. *Managing Careers. Strategies for organizations*. New York: Institute of Personnel Management, 1991. P. 34.

<sup>9</sup> See Justo Villafañe. *La gestión profesional de la imagen corporativa*. Madrid: Pirámide, 1999.

<sup>10</sup> "Los códigos éticos en la empresa". In *La ética como instrumento de gestión empresarial*. Domingo García Marzá (Comp). Castellón de la Plana: Fundació Ètnor, Fundació Caixa Castelló, Publicacions de la Universitat Jaume I, 1996.

- It includes the legal obligations of the corporation and its commitment of respect to human rights.
- It gains social credibility through the definition of its environmental and social responsibility policies.
- It develops ways of approaching the community through the identification of its needs and makes an effort to reach leadership in the satisfaction of those needs.

### **The Ethic/image connection**

Among other purposes, business ethics is used to build a positive image of the company. Perhaps the activity that shows this relationship in a more violent way is cause-related marketing. It can be defined as those actions implemented by a corporation in order to get the consumers involved in a socially committed behavior, while at the same time those actions favour the corporation's interests in the market and improve its image.

One of the first programs of cause related marketing was designed in 1982 by Jerry Wells who was then vice-president of American Express. He thought of a strategy to finance the restoration of the Statue of Liberty and to make American Express Best Company of the Year just when the bicentenary of the foundation of the United States was being celebrated. The program was for American Express to donate one cent for every operation done with the credit card in the States and a dollar for every new American Express credit card issued. The response of the public was spectacular and not only did the use of the American Express card grow by 28% that year, but the company donated 1.7 million dollars towards the restoration of the famous statue. American Express improved its reputation and the perception of the company was associated with ideas of commitment and concern for the needs of society.

Cause-related marketing permits a company to reach a wide range of objectives. First of all, it enables the company to achieve better results since customers feel committed to the chosen cause. It improves its corporate image and gains public recognition because the corporation appears as a defender of a social cause, and therefore benefits knowledge, differentiation and positioning. It helps establish a closer relationship with the community which has two advantages: members of the community may become customers and employees will feel proud of an organization that takes care of their people. It protects the company from public scrutiny, since a socially committed corporation will always look less suspicious. This fact implies that cause-related marketing is a good strategy to face any kind of crisis, because the public will be more indulgent when it comes to judge errors. It also reduces tax obligations of companies, since it permits important tax deductions. Cause-related marketing increases productivity level because it raises employees' morale and it creates a synergy between the departments involved in a programme. And last but not least, cause-related marketing reduces research and investigation costs, since it gathers valuable information about the market and about present and potential customers.

Even so, the implementation of a cause-related marketing program does not guarantee a total success and the achievement of all these objectives. In order to be successful it has to fulfill the following requirements:

The first is to choose the right cause, which means finding the best cause to represent the most important values linked to the identity and the image of the corporation. We must not forget that cause-related marketing tries to reverse the classical situation in

which the customer, through the act of purchase, hopes to acquire the values symbolized by a certain brand to a situation in which corporations and brands make an effort to identify and represent customers most appreciated values. It is usually a good idea for the elected cause be close to the activities of the company so it can optimize the resources involved. It is advisable to choose a specific and well known cause that is manageable in terms of budget and implication.

The second requirement is to choose the right partner. A corporation can be very efficient in its business but an NGO will probably be better prepared to run one of this social programs. A partner has to have a sound image of integrity and credibility, it has to be coherent with the values for which the company stands and to have the proven ability to manage the program.

The third requirement is to develop a program that is consistent with the cause and the chosen partner. Some factors to take into consideration are the difficulty of involvement in the cause; the fact that the benefits are more or less tangible; and the relationship between the act of purchase and the participation in the program.

The fourth condition is to measure the results of the program in order to be able to make appropriate modifications in future programs and have access to information that is very valuable for the company.

The fifth and last condition is to communicate the results of the program adequately.



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