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# A Historical Perspective on Business Ethics and the Role of Ethics Training

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**Abstract**

The practice and discussion of ethical behavior in business has been going on since the colonial times. There has been much research over whether or not socially responsible behavior is counterproductive to an organization's goal of increasing profits. Many studies showed that corporate social responsibility and ethical behavior can also provide competitive advantage and growth in market share. This paper will examine the development of social responsibility and business ethics beginning from the colonial times to shed light to corporate social responsibility and ethics of business today. The literature review has also taken into account the influence of an ethics training program on employees conduct.

**Key Words:** Business Ethics, Corporate Social Responsibility, Ethics Training.

## Tarihsel Perspektiften İş Etiği ve Etik Eğitiminin Rolü

**Özet**

İş dünyasında etik konusunda uygulama ve tartışmalar sömürgecilik dönemlerinden beri süregelmektedir. Sosyal açıdan sorumlu davranışın organizasyonun kar artırma amacına ters düşüp düşmediği hususunda pek çok araştırma yapılmıştır. Birçok çalışma kurumsal sosyal sorumluluk ve etik davranışın firmanın rekabet avantajı ve pazar payı artışına da katkı yaptığını göstermektedir. Bu çalışma sosyal sorumluluk ve iş ahlakının gelişimini sömürgecilik dönemlerinden incelemeye başlayarak günümüz kurumsal sosyal sorumluluk ve iş ahlakını aydınlatmaya çalışacaktır. Literatür taraması ayrıca etik konusunda eğitim programlarının çalışan davranışına etkilerine daha önce yapılmış çalışmaları inceleyerek yer vermiştir.

**Anahtar Kelimeler:** İş Etiği, Kurumsal Sosyal Sorumluluk, Etik Eğitimi.

### 1. Introduction

Corporate scandals have always been present in the business world. Even today, some scandals break out from time to time; but stakeholders, including employees, customers, vendors and stockholders, are much more aware and they are demanding higher accountability and adoption of more socially responsible practices.

The ethical behaviors of businesses have become an extremely important issue throughout the world. Busines holders are asking for more and businesses are starting to respond in unprecedented ways (Avram and Kühne, 2008: 469). Businesses are also feeling pressure from the government, which has responded with everything from encouragement to legislation in order to minimise illegal and unethical practices.

Solutions for the environment, worker safety, child labor, fair trade are expected from corporations. (Waddock, 2008: 90). Stakeholders with interests ranging from livable wages to environmental pollution are asking business to step up to the responsibilities of corporate citizenship. Briefly, in the more conscientious marketplaces of the 21st century, the demand for more ethical business processes and actions is mounting. Furthermore, pressures for the application of business ethics are being exerted through enactment of new public initiatives and laws.

There are many terms used to describe good behavior in business such as business ethics, corporate citizenship and corporate social responsibility (CSR). Ethics is defined as a system of values and a consciousness of moral importance involving codes of conduct as the standards of a profession or group. Corporate citizenship imparts a very distinct image about a firm's role in society. By applying citizenship to a business it follows that it too has responsibilities that correspond with the considerable benefits. It is also important to point out that deviation from what is considered legal and perhaps moral requires punishment based on the norms of our society. The definition of CSR has varied over the years. Most seem to agree that CSR involves the following key criteria: providing a product or service in a legal manner, behaving ethically, doing no harm to any stakeholder, concern about environmental impacts, including those upon the community in which the business is located, and positive involvement in society (Campbell, 2007: 946; Waddock, 2008: 90; Carroll, 2008: 37). Carroll (2008) states that in this era of responsiveness, business ethics and corporate citizenship have become more central to the focus of CSR. Campbell (2007: 947) writes that over the years a large number of institutions and organization have been established to monitor various aspects of corporate citizenship. These entities include industry associations, governmental bodies and nongovernment organizations (NGO).

So, these terms such as Business ethics, Corporate citizenship and Corporate Social Responsibility (CSR): which convey specific meanings can be described as follows:

Business ethics: Legal, socially responsible, moral values and codes of conduct within the workplace (Merriam-Webster, 2010).

Corporate citizenship: The responsibility of businesses to communities, the environment, fellow citizens and government (Timonen and Luoma-aho, 2010).

Corporate Social Responsibility (CSR): Providing a product or service in a legal manner, behaving ethically, doing no harm to any stakeholder, putting minimal impact on the environment, without polluting or with projects to minimize the pollution provided by the production facilities and forging positive involvement in the community when possible (Waddock, 2008: 79, Carroll, 2008: 39). This definition of CSR provides a useful structure for understanding the diversity of responsibilities corporations assume. Furthermore, it appears to have achieved some level of definitional consensus in the literature.

## 2. Literature Review

Consumer confidence and the economy have been shattered in the past decade after the Enron, Worldcom and recent mortgage industry scandals. Some corporations have economies larger than some poor countries and issues with globalization still persist. In this context, business ethics is both a growing concern and evolving philosophy. This paper will examine the current state of ethics in business and assess the compatibility of social responsibility with profit maximizing principle by reviewing the literature on this subject. Today, many organizations are finding that corporate citizenship has far reaching benefits and sustains competitive advantage. Moreover, Bonn and Fisher (2005: 732) agree that many organizations are also considering social responsibility as another tool for maximizing the profits and many businesses find it is not contradictory to stakeholder desires.

The paper will present a brief history of views and practices of corporate social responsibility and ethics in order to assess the current state of ethics in modern corporations as well as the role ethics plays in the organizations by focusing especially on the ethics training.

### 2.1. Brief History

During colonial times, business owners' philanthropic activities were associated with religious beliefs of the time (McMahon, 2002: 44; Carroll, 2008: 41) encouraging business owners to engage in some charity acts or donations.

As the factories took over and industrialization grew at accelerated rates, the thoughts have changed in favor of a more Darwinian theory. The creation of wealth and survival of the fittest became much more important than helping those in need through charity or donations (McMahon, 2002: 121). In fact, in 1883 the courts of Great Britain would not allow the West Cork Railroad Company to provide former employees with compensation for layoffs, admonishing that the company could only spend funds specifically for operating the business not charity (Carroll, 2008: 42).

The economic disaster of 1929 and the Great Depression did not instigate much change in the discussion of the ethical behavior of businesses. Carroll (2008: 43) describes the first era of corporate social responsibility during the timeframe of industrialization through Depression as being one of paternalist philanthropy. Charitable gifts were normally bestowed to local community chests, hospitals or organizations. Donations were at the whim of executives and while this was a step toward embracing social responsibility, it was an era of more talk than action (Carroll, 2008: 51). The philanthropic era drew to a close in the 1950s.

In 1957, the first comprehensive business ethics book (Johnston, Herbert. Business Ethics) was published. Using case studies and philosophical guidance to provide education in acceptable moral standards from Catholic teachings, the book provided guidance and structured many employee responsibilities and basic rights (McMahon, 2002: 123).

Indeed in the years that followed World War II (WWII) the relationship between employer and employee was greatly changed. Prior to WWII employees could expect a livable wage for a good day's work. But after the war, instead of a livable wage, employees were expected to work for a competitive wage, which was determined by the employer and less than a livable wage (Karnes, 2009: 191). Moreover, before the war, the employees were rewarded when firms did well; this is also not true for the current businesses where the relationships are much more short term. Karnes (2009: 192) reports that there are many examples of employees seeing no financial return when companies do well. In fact, many are forced to work long hours or take second jobs. This surely deteriorated the relationships within the family and lowered morale.

In the 1960s scholars and the business community began trying to define corporate social responsibility. It is also the first time that an expansion beyond philanthropic elements to concepts such as employee relations, safety concerns and consumer relations is observed. In this era, stakeholder awareness does not drive considerable action within the decade but does give birth to increased demand for consumer safety (Carroll, 2008: 54).

At the end of sixties, after the price fixing scandal in the electrical industry in the United States that involved prosecution and jail sentences, the belief that nearly all businesses had unethical or illegal elements was settled in most people's mind. The 1964 Civil Rights Act was enacted to put the emphasis on ethical behavior. Discrimination became illegal and with the legislation of employee treatment in the workplace, the employer-employee relations made part of an ethical code of conduct. Meanwhile, the government's willingness and power to enforce standards is also shown in environmental issues such as pollution control.

In the late 1970s and 1980s, business ethics changed again as organizations implemented new internal functions focused on groups such as shareholders, employees, the public and the environment (Carroll, 2008: 55).The environment became a concern for business during this era. The legislations to minimize and control pollution are enacted and the projects in order to conserve the environment are supported. These laws also reinforced an idea of corporate citizenship where the organization and its officers have responsibilities to control pollution.

### 2.2. Modern Era

In the 1990's, corporations have become extremely powerful players on the world stage with economies larger than some countries. So, more socially and environmentally responsible business practices are anticipated from these corporations. Even stockholders began to demand more accountability (Waddock, 2008: 95).

There are stil some academicians and practitioners believing that social responsibility has no place in the business world. Many consider shareholder primacy to be the main objective of firms, which in essence means the quest for profits take priority over all other factors. Keay (2008: 665) claims that managers can work better and take decisions easier when following the objective of profit maximization. Friedman (1970) who is the main advocate in this regard, claims that the only social responsibility a firm has is to increase profits because if an organization is maximizing profits it is also maximizing wealth for stakeholders. Employees will have job security, customers will have the products and governments will gain tax revenue.

Danielson et al.(2008: 64) caution that organizations cannot pay employees salaries "in excess of the employees' marginal productivity". Another argument against the practice of social responsibility in business claims that firms cannot afford to reduce prices or increase wages because to do so would harm both consumers and employees in the long run (Danielson et al., 2008: 64). The theory is that revenues would be depleted if the firm reduced prices or raised wages and the firm would be unable to invest in research and development. The assumed result is that the company would be unable to compete eventually.

David (2007: 188) states a growing number of organizations are considering ethical behavior to be a strategic advantage. Adam and Rachman-Moore (2004: 227) discuss the ramifications of the lack of trust due to unethical behavior and how it is a hindrance to the economy. These authors advocate for an ethical policy "that is embedded into the workplace routines,". Shaw and Corvino (1996: 375) would argue that the appearance of ethical behavior could also create trust within an organization and between its external stakeholders. However, a lack of commitment to stated objectives eventually becomes transparent to stakeholders of the organization and could compound the lack of trust within the firm (Wicks, 2001: 505, Schwartz and Carroll, 2003: 503). David (2007: 194) writes that unethical business practices lead to exactly what strategic planners seek to avoid; waste, inefficiency and lost competitive advantage.

Kukalis (2009: 101) examines the changing economy to give even further justification for the adoption of ethics into the strategic management process. The author writes that the economy has changed a great deal with the rapid evolution of technology and the widespread use of the Internet. There has been a shift to a digital economy as opposed to an industrial economy and the author states that this factor creates strong competition for reputation in the marketplace as service organizations have only their reputations to gain new customers. Kukalis (2009: 102) writes that businesses must rely upon good reputation in order to thrive in today's economy. Fombrun (2001) states that economists consider "reputations as either traits or signals". Fombrum (2001) goes on to state that reputation is a large factor in external investment. Fombrun (2005) argues that investors are not able to predict the lasting success of an organization so they rely on reputation to help make their decisions. Moreover, among other factors, reputation has been identified as playing a significant role in improving firm value (Fombrun and Shanley, 1990; 236), enhancing consumer perceptions of product quality (Grewal et al., 1998; 344), raising employee morale, productivity and improving recruitment and retention (Turban and Cable, 2003; 748), and permitting access to cheaper capital (Beatty and Ritter, 1986; 223). The existing literature has identified a close relationship between corporate reputational capital and social responsibility and has focused considerable attention on evaluating the meaning of reputational indices concluding that such indices ''speak most directly to their ''reputation'' as an investment'' (Fryxell and Wang, 1994; 13).

Stakeholder interactions will vary from firm to firm based on reputation. Employees, consumers, investors, competitors, media and the public form certain perceptions based on reputation. Much of the qualities and abilities of a firm are unknown factors to the external world. Public relations campaigns, advertising, and charitable giving are all "strategic projections" utilized to "signal their attractive features to potential customers, investors, and employees and through which they build reputation (Fombrun, 2001)."

Kukalis (2009: 102) states that businesses can no longer focus exclusively on increasing shareholder gain in this new era. Kukalis (2009: 104 ) states that both the interests of business and society need to converge and compliment one another. Avram and Kühne (2008: 469) state that ethics can and should be aligned with the responsibilities an organization's own activities generate. These authors give arguments for reasoning that such socially responsible behavior is an effective competitive advantage.

Other scholars of management view reputations as assets that provide competitive advantage or disadvantage (Fombrun, 2001). Fombrun (2005) states that competitors cannot duplicate the reputation of favored organizations in their industry. Even if services or products are of the same quality, stakeholders will still choose the favored companies. This view illustrates the advantages of having a good reputation. Fombrun (2005) also states one must consider the amount of resources needed to build a good reputation to defend against industry rivals.

Economists and scholars are not the only experts seeing real value in a firm's reputation. Business managers rank reputation as a key to success and often attempt to encourage and preserve its positive development (Fombrun, 2005). For service companies whose identity is their branding, the loss of reputation is one of their greatest fears (Davies, 2005).

The decision to behave unethically or illegally can have considerable cost to the organization (Fombrun, 2005). While it is difficult to quantify the value of reputation with academic analysis, surely this evidence suggests that there is a great deal of monetary value to a reputation. These costs can include settlements, fines and managing the aftermath as seen in many examples in 1990's such as Barings Bank, Dow Corning and Bhopal, Exxon Valdez oil spill disaster and this year BP. These unfortunate incidents give business a means to apply the costs of unethical behavior to the bottom line when making decisions. Other costs such as legal settlements, environmental clean up, medical care, death benefits and pain and suffering awards cannot be completely calculated accurately as they vary a great deal.

## 3. Summary of the Literature Review

In summary, there are significant costs to unethical behavior. Businesses cannot afford to ignore these costs when making decisions. Even if one considers the primary goal of business to be the creation of profit, the fact that unethical behavior is actually financially detrimental cannot be ignored. There are both tangible and intangible consequences to organizations to behaving unethically. While many may dispute how much value to place on reputation, there is no denying the high and very quantifiable price of civil lawsuits, government fines, environmental clean up and underhanded dealings with customers

This literature review has examined the historical development and economic dimension of business ethics. From a historical perspective one finds that corporate citizenship dates back to the earliest days of colonial business. Once considered nothing more than charitable giving, social responsibility is now an integral part of a progressive organization's strategic plan. Increased government regulation and the general public have made increasing demands on businesses to behave ethically. Most of the literature indicates that ethical behavior and pursuit of profit are not exclusive of one another, but complimentary. Organizations are free to seek out socially responsible initiatives that compliment the business plan and improve market share rather than deplete revenues. Those that argue against corporate citizenship fail to prove that ethical behavior is detrimental to a firm's survival. Instead, organizations that continue to ignore the responsibilities of good corporate citizenship may find only increased government legislation, fines, and loss of reputation as an unwelcome outcome. Ethical codes of conduct may someday become as vital to the firm as the mission statement and overall vision.

## 4. Ethics Training

Human Resources involve the management of human capital in conjunction with the policies and practices of an organization (Noe et al., 2007: 154). No other department in an organization touches every employee all the way from the start of a career to retirement. Human Resources (HR) Department provides the employee guidance and education. HR professionals are key to reinforcing the mission and vision set forth by leadership. The recruitment and retention of skilled employees is also the responsibility of human resources.

Ethics touches many different aspects of human resources within all of these categories. HR employees find themselves monitoring ethics in all parts of the organization, including a vast spectrum between monitoring Internet usage to insuring worker safety. All of these functions warrant individual ethical considerations. Training is one of the most important aspects of HR. An ethical human resource policy is crucial to a company's moral foundation as this type of policy clearly illustrates the values the company holds dear (Giancola, 2008: 26).

However, Duska (1991: 349) states that most people have established personal morals long before entering the workforce, therefore ethics training would be useless and a waste of resources. On the other hand an experiment including real estate professionals seems to suggest ethics training does have positive effects (Izzo et al., 2006: 241). Two hypotheses were tested in this study, measuring the effects of training on basic morals and real estate ethical standards. The 135 participants varied by company and city but were all members of the National Association of Realtors. The control group took the same pretraining test but received no training prior to the post-test. The study group received about five hours of interactive training. Moral quandaries were discussed in small groups giving each participant an opportunity to be on each side of a decision making process. While participant scores on the pre-training test had very little variance, the post-test scores were considerably improved for the study group. (Izzo et al., 2006: 247).

Ramos (2009: 19) discusses how leading socially responsible businesses make training a part of the company's culture. Firms that recognize establishing a well-understood value structure and accepted code of conduct create better stakeholder relations, which in turn also foster longterm success. Ramos (2009: 19) states organizations with ethical cultures welcome openness about business conduct between all levels of the organization; provide training that is applicable to the organization, the employee and situation; and commit to socially responsible stewardship in all aspects of company dealings.

Teicheira (2008: 64) encourages organizations to consider ethics training as an ongoing process, states that a firm should take reasonable steps to communicate periodically and in a practical manner its standards, procedures and ethics program. Accordingly, there is a great deal of importance given to leadership in creating a company culture of high moral values (David, 2007: 188; Teicheira, 2008: 69; Burke, 2008: 133). The importance of ethics to a company may be well known, but employees must also feel that management expects it at all times.

Adam and Rachman-Moore (2004: 225) study an excellent real-life example of an organization that has incorporated training as one component of an ethical culture. The ethics training process begins in the first week of employment. The code has three areas: corporate standards and policies, expectations for business conduct, and guidelines for making thorny decisions. Documentation outlines the values and rules of the organization and provides examples that relate to workplace activities. New employee orientation also includes education in the culture of organization and includes specific mention of company values such as mutual respect, leadership, integrity, work quality and good customer service. Senior management's leadership in this training reinforces the importance of ethics within the organization to employees (Adam and Rachman-Moore, 2004: 239). Ethics training provides more legal protection only if there is management commitment to ethical decision-making. Because, training is just one component, ethics need to be integrated into business communication. It needs to be regularly on the lips and pens of executives. The message needs to be communicated in a variety of ways with routine frequency.

Indications from these studies and business community show that ethics training can play a positive role in an ethics program (Armstrong, 1977: 211; Heath, 2008: 611). While the correct application of training, continued guidance, clear expectations and especially leadership seem to have a very important impact on the implementation success of an ethical program.

## 5. Conclusion

Although the debate will continue about whether or not businesses have a moral responsibility to society one cannot overlook the ramifications of poor decisions in these modern times. The primacy of profit can no longer be the only interest considered by organizations. Organizations can merge social responsibility with methods to gain competitive advantage.

Economically, unethical behavior can cause an organization millions in loss of reputation, decreases sales, or diminished market share. Illegal actions can result in fines and prison time. Such behaviors bring lawsuits, which in addition to legal costs and civil penalties also further decrease reputation.

An ethical code of conduct means so much more than just words in an employee manual. An organization must have an ethical culture if it wishes to truly minimize the risk of criminal activity at worst and scandal in the least. With ethics training as a foundation, ethical issues will be dealt with before they become serious concerns. Leadership must also participate in the culture in a way that fully validates the company's values and expectations.

Training programs are considered to be effective but cannot be the exclusive means of communicating ethical values to employees. It would seem prudent for leaders and ethics trainers to incorporate ethics into annual evaluations for both employees and the organization as a whole. Moreover, the experts should try to implement ethics as a part of organizations culture by ethical training programs in order to have this perspective in the long term. Business ethics can generally cover many of the moral questions organizations will face. It is important to note that each industry also has unique ethical challenges. However, by assessing the importance of the role played by the ethical training in the organizations culture and by organizing periodical programs, an ethical company is attainable. In this way, companies can focus on encouraging a culture committed to ethics and compliance, in which ethics is part of almost every business discussion.

Finally, it is important for all stakeholders to realize their own accountability in creating an ethical culture and making socially responsible decisions. This paper does not hold business exclusively responsible for the acceptance and implementation of ethics. All stakeholders bear responsibility in creating a public mandate for ethical behavior. Therefore, the ethical behavior and sustainable development can only occur when all individuals and especially organizations show respect, responsiveness, and responsibility to the entire society and humanity in general (Owolabi A. and Olu-Owolabi E, 2009).

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