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Business Ethics and Corporate Social Responsibility in the e-Economy: A Commentary

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Abstract

The paper addresses the concepts of business ethics and corporate social responsibility in the old vis-à-vis the new economy. The effects of globalization and its impact on the transition from the industrial to the digital era are explored. Although the behaviour of business organizations has always had a profound worldwide impact, with the decline of the nation state economic power has, for the first time, eroded political power. Simultaneously, the undergoing revolution in contemporary information and communication technologies has significantly empowered the customer. Responding to enhanced customer awareness and sensitivity to business and social responsibility issues -coupled with consumers' increasing ability to react- companies in the digital age may be expected to develop even stronger cultures of corporate social responsibility, proactively seeking to increasingly honour their moral obligations to society in the 21st century.

Keywords: Business Ethics, Corporate Social Responsibility, Global Standards, Social Accountability 8000, e-Economy.

1. Business Ethics and Corporate Social Responsibility: Conceptual Definitions

The concepts of business ethics and social responsibility are often used interchangeably, although each has a distinct meaning. The term business ethics represents a combination of two very familiar words, namely "business" and "ethics". The word business is usually used to mean "any organization whose objective is to provide goods or services for profit" (Shaw and Barry, 1995, p. 3; also see Velasquez, 1998, p.14), whereas organizations are defined as "(1) social entities that (2) are goal oriented, (3) are designed as deliberately structured and coordinated activity systems and (4) are linked to the external environment" (Daft, 2001, p. 12). One of the most important organizational elements highlighted by this definition is that organizations are indeed open systems, i.e. they must interact with the environment in order to survive. …. "The organization has to find and obtain needed resources, interpret and act on environmental changes, dispose of outputs, and control and coordinate internal activities in the face of environmental disturbances and uncertainty" (ibid, p. 14). The fact that business organizations are open systems means that although businesses must make a profit in order to survive they must balance their desire for profit against the needs and desires of the society within which they operate. Hence, despite the fact that in market economies business organizations are traditionally allowed some degree of discretion … being "ostensibly free to choose what goods and services they produce, the markets they aim to serve and the processes by which they produce" (Smith and Johnson, 1996, p. 28), organized societies around the world did indeed establish principles and developed rules or standards of conduct - both legal and implicit - in order to guide businesses in their efforts to earn profits in ways that do not harm society as a whole.

The word ethics in the term business ethics comes from the Greek word ethos meaning "character or custom" (Shaw and Barry, op.cit, p.3). Ethics has been defined in a variety of ways, inter alia, as: "the study of morality" (Velasquez, 1998, p.7); "inquiry into the nature and grounds of morality where the term morality is taken to mean moral judgments, standards and rules of conduct" (Ferrell and Fraedrich, 1997, p.5); and/or as "the code of moral principles and values that governs the behaviors of a person or group with respect to what is right or wrong" (Daft, opcit, p. 326). Based on these conceptualizations, the definition of business ethics adopted here comprises "the moral principles and standards that guide behavior in the world of business" (Ferrell and Fraedrich, opcit, p. 6), whereas "an organization's obligation to maximize its positive impact, and minimize its negative impact, on society" is being termed corporate social responsibility (Ferrell and Fraedrich, p. 67).

Corporate social responsibility is a multidimensional construct comprising four subsets of (1) economic; (2) legal; (3) ethical;

and (4) voluntary philanthropic responsibilities (Carroll, 1989, pp 30-33; Ferrell and Fraedrich, ibid, p.6). The economic responsibilities of a business are to produce goods and services that society needs and wants at a price that can perpetuate the business and satisfy its obligations to investors. Thus social responsibility, as it relates to the economy, encompasses a number of specific issues including how businesses relate to competition, shareholders, consumers, employees, the local community and the physical environment. The legal responsibilities of businesses are simply the laws and regulations they must obey. It is the bare minimum required of business organizations by society in return for allowing them to obtain the inputs they need from the environment, transform inputs into outputs and dispose of outputs -- in the form of goods and services acquired by consumers in order to satisfy their individual needs and wants. The legal dimension of corporate social responsibility thus refers to obeying local, national and international law regulating competition (procompetitive legislation) and protecting: workers' human rights (equity and safety legislation); the consumer (consumer protection legislation); and the natural environment (environmental protection laws). Ethical responsibilities are those behaviours or activities expected of business by society -- yet not codified in law. This subset of corporate social responsibilities may be interpreted as expressing the 'spirit of the law' vis-à-vis the 'letter of the law' in the previous case. Lastly voluntary philanthropic responsibilities are those behaviours and/or activities desired of business by society and referring to business contributions to society in terms of quality of life and society's welfare - for example, giving to charitable organizations and/or supporting community projects.

Although there would appear to be little disagreement about the need for organizations to act responsibly toward the wider society and the natural environment in which they operate, organizations themselves have adopted a wide range of positions regarding corporate social responsibility. The various organizational stances vis-à-vis social responsibility in free-market economies fall along a continuum, ranging from a low to high degree of socially responsible organizational practices (Barney and Griffin, 1992, pp. 734-735). The few organizations that take a social obstruction approach to social responsibility usually do as little as possible to solve social and/or environmental problems. In such a case ….. "the organization does stand apart from society and functions best when it gets back to basics, when it is freed of government regulation and constraints and discards social engineering in favor of just plain engineering" (Schwartz and Gibb, 1999, p.96). One step removed from social obstruction is social obligation, whereby the organization does everything that is required of it legally but does nothing more. A firm that adopts the social response approach generally meets its legal and ethical requirements and sometimes voluntarily even goes beyond these requirements in selected cases. Finally, the highest degree of social responsibility that a firm can exhibit is the social contribution approach. Firms adopting this approach view themselves as citizens of a society and, as a result, proactively seek opportunities to contribute.

2. Business Ethics and Corporate Social Responsibility in the Old Economy: A Theoretical Framework

Economy has been defined as "a systematic way of describing how goods and services are exchanged among members of a given community" (Aldrich, 1999, p. 4). The earliest economies were agricultural in nature and centered on producing, exchanging and consuming products derived from the natural world. In agricultural economies land and labour were understandably the most important factors determining economic and business success. The emergence of industrial economies, following the Industrial Revolution, was characterized by a drive of business organizations to produce goods for mass markets. In the industrial era capital and labour were by far the most important ingredients of success, leading to a hundred years of astonishing economic progress: "the industrialised countries are about 20 times better off at the end of this century than they were a hundred years earlier" (Coyle, 1999).

The close link between economy and the nation state constitutes one of the most prominent features of the industrial era, with political power significantly surpassing economic power (Coyle, 1999; Schwartz and Gibb, 1999). Traditionally, national governments in industrialized countries tended to focus on economic growth and full employment via creating a business environment characterized by a fairly low degree of uncertainty. The most successful type of organization in this environment was the "make-and-sell" organization, namely the organization that was able to accurately predict what the market should demand, made the product and then went out and sold it (Tapscott, Lowy and Ticoll, 1998, p. 37). The dominant business-strategy adopted by make-and-sell organizations was internally-driven and management-centered -- i.e. it was the manufacturers themselves who made all the hard decisions: what sorts of consumer needs they would attempt to meet; what markets they would serve; what products they would offer; and what prices they would charge (Zenger, Musselwhite, Hurson and Perrin, 1994, p.14). Moreover, due to the fairly high degree of environmental predictability, enhanced emphasis was placed by organizations on stability, efficiency and hence rigid bureaucratic organizational cultures stressing that "shareholder value is the only value that matters" (Schwartz and Gibb, opcit, p. 96). Being a consumer in the industrial era meant "having very little direct power over what goods were available" (Aldrich, ibid, p. 9), while public opinion regarding the social obligation and/or social response approach to corporate social responsibility was in fact mediated by government in the form of legislation and direct or indirect regulation (Barney and Griffin, 1992, p. 736-737; Schwartz and Gibb, ibid, p. 4).

3. Globalization and Society's Changing Expectations of Business

Recently, however, society's perception of corporate social responsibility issues has commenced to change in response to globalization. The term globalization is perhaps one of the most widely used and least precisely defined concepts in contemporary business. According to Schwartz and Gibb (1999) the term 'globalization' does not refer to a single process but "serves as shorthand for several related processes", namely:

- an increasingly shared awareness across many publics
- a new international financial web
- new open space into which dominating cultures can move
- progress from 'inter-national' to 'global' institutions
- declining importance of geography
- dangerous new linkages possible
- greater speed of events
- trend away from nation-states

whereby …… "shared awareness across publics" highlights the remarkable growth of the contemporary NGO community: non-governmental organizations (NGOs) currently represent millions of citizens around the globe, while the new international media can mobilize those millions overnight if it chooses; the "new international financial web" implies that … 'transparency, probity and rule of law are nowadays more important to more people than ever'; "open space for dominating cultures" indicates more and deeper debate over international values; the creation of "global" as opposed to "inter-national" institutions refers to the entrance of new unfamiliar players, the 'stateless corporations', in the business terrain; "declining importance of geography" suggests that the traditional link between production and place, between economy and the nation state is now breaking down, while more and more people all over the world consider themselves stakeholders in decisions made by businesses anywhere; "dangerous new linkages" relates to any number of emerging networks whose impacts the public (rightly) feels unsure of; the "greater speed" at which the world now operates emphasizes that companies that become insulated from their markets or communities can be blindsided by changing attitudes more quickly than ever; finally, the shift of power away from nation-states means that the public in general requires more accountability from other powerful actors, such as business, and expects them to respond directly to the demands of public opinion rather than waiting for that opinion to be mediated by government legislation or regulation (Schwartz and Gibb, ibid, p.4).

Thus, society's perception of corporate social responsibility seems to undergo a phase of fundamental change. A variety of forces -geopolitical, socio-economic, demographic and technological- appear to influence society's changing expectations of business. First, the recent collapse of several communist regimes, such as the former Soviet Union, around the world has led to the development of a new integrated global business environment with market economies being the clear winner (Tapscott, 2000, p. 18). Second, new problems are emerging -shaking up existing assumptions about our world- including: biotechnology and information technology concerns; the ageing of industrial nations; and mass unemployment. Profound technological change always involves economic upheaval and the impact of computerization is likely to prove of equal or even greater importance than that of electrification (Coyle, 1999, xi). Moreover, genetic engineering technologies being explored today raise more complex issues of scientific and social responsibility than corporate decision makers have ever faced (Schwartz and Gibb, p. 147).

The population of the industrial nations is ageing rapidly. The proportion over 60 in the industrialized countries that make up the OECD is predicted to rise from less than a fifth in 1990 to a third in 2030 (Coyle, opcit, p. xi). While in one half of the modern industrialized world, continental Europe, more than a tenth of the population of working age is currently unemployed -- and mass unemployment is here to stay as technology is making more and more workers obsolete (ibid, pp xi, xv and 238). The combined effect of rapid technological progress, ageing and unemployment exerts an unbearable pressure on the kind of welfare state almost all the Western European nations have had in place since World War II, as the proportion of population that pays tax - both of working age and still employed - is continually thinning.

A shrinking world, radical technological advancement and the unavoidable end of welfare resulted in enhanced uncertainty and at the same time led to a realization that "problems are increasingly global and demand solutions that presuppose a framework of values acceptable everywhere" (Kidder and Cleveland, 1994). Cultures around the world thus converged towards adopting some core values, comprising: truthfulness; fairness; freedom; community; tolerance; responsibility; and respect for life (Kidder and Cleveland, opcit). These universally shared values led to establishing international principles regarding the ethical responsibilities of contemporary business to society -the Caux Round Table (CRT) Principles of Business- endorsed by the overwhelming majority of the world's nations (Schwartz and Gibb, 1999, p. 75). This recognition of fundamental international rights and corresponding responsibilities was further codified into a global corporate code of conduct -- grounded on the United Nations Universal Declaration of Human Rights (1948); the European Convention on Human Rights (1950); the Helsinki Final Act (1975); the OECD Guidelines for Multinational Enterprises (1976); the International Labour Office Tripartite Declaration of Principles Concerning Multinational Enterprises and Social Policy (1977); and the United Nations Code of Conduct on Transnational Corporations (1972) -- covering five major business areas: employee practices and policies; basic human rights and fundamental freedoms; consumer protection; environmental protection; and political involvements (Ferrell and Fraedrich, 1997, pp 202-206).

Last but not least, new relationships are currently emerging among the traditional social partners. A major development in this respect has been a significant shift in NGO strategy. For years non-governmental organizations (NGOs) focused on changing national government policies, while later they expanded their focus to include intergovernmental or supranational organizations such as the United Nations, the Organization of American States and the European Commission (Schwartz and Gibb, opcit, p. 132). Recently however NGOs have begun paying increased attention to the general subject of business and social responsibility, moving away from the traditional "NGO-government" relationship toward a dynamic "NGO-corporate" relationship. The importance of this development has been highlighted by Peter Sutherland, former head of the GATT: "the only organizations now capable of global thought and action - the ones who will conduct the most important dialogues of the 21st century - are the multinational corporations and the NGOs" (ibid, p. 139).

4. Business Ethics and Corporate Social Responsibility in the New Economy

Just as the industrial economy gradually evolved from the agricultural economy, so the industrial economy is currently giving way to the emerging digital economy. In the new economy technology becomes the dominant factor of wealth generation "rather than land, labor and particularly capital", whereas "information and its proper management through information technology are making the difference and separating the winners from the losers" (Aldrich, 1999, pp. 6 and 7).

In the digital environment the balance of power shifts inexorably from the manufacturer to the consumer. To be competitive in the new economy companies must offer products and services that are specifically customized to meet the needs of individual consumers (Daft, 2001, p. 207). This implies that "businesses in the digital age must employ product development processes that interact dynamically with customers; that they perform a more constant-and precise- monitoring of overall market trends; that cycle times get dramatically reduced; that raw materials are procured rapidly and in a cost-effective manner; and that distribution methods that suit the customer's, not the company's convenience are put into place. In short, the free flow of information made possible in the digital age will put the customer at the center of business priorities and strategies" (Aldrich, opcit, pp. 11-12).

Consumer empowerment in turn implies a 180-degree change in business strategy from a 'make-and-sell' to a 'sense-and-respond' organization …"an adaptive system for responding to unpredictable requests. It is built around dynamically linked sub-processes and relies on economies of scope rather than economies of scale. The people in a sense-and respond environment are empowered and accountable, and spend their time producing customized outcomes in accordance with an adaptive business design" (Tapscott et al, 1998, p. 37). Sense-and-respond organizations are thus customer-driven, process-focused and employee-involved (Zenger et al, 1994, p. 14). Due to the considerable increase in uncertainty, enhanced emphasis is being placed on flexibility, change and hence adaptive, entrepreneurial cultures stressing that "customer value is the only value that matters" (Daft, pp 319 and 483-487).

At the same time -responding to society's changing expectations of business- a growing number of companies seem to take pride in corporate citizenship, committing themselves to social responsibility. Companies that have received Corporate Conscience Awards in recent years include Kellogg, Sainsbury, Hewlett-Packard, Pfizer Pharmaceuticals, and Fuji Xerox (Schwartz and Gibb, p. 78). A most notable evolution in this respect has been the development of Social Accountability 8000 (SA-8000) - a global standard "providing a framework for the independent verification of the ethical production of all goods, made in companies of any size, anywhere in the world" …. a major opportunity for companies "to demonstrate their commitment to best practice in the ethical manufacture and supply of the goods they sell" (Fabian, 1998, p.1). SA-8000 involves auditing companies by independent assessors on a wide range of issues, comprising: child labour, health and safety, freedom of association, the right to collective bargaining, discrimination, disciplinary practices and compensation (Fabian, opcit, p. 2). Organizations meeting the standard earn a certificate attesting to their "social accountability policies, management and operations" (ibid, p. 3).

5. Concluding Remarks

Business behaviour has always had a significant worldwide impact - in the eighteenth, nineteenth and twentieth centuries, and even before then. In the industrial era however political power generally surpassed economic power since governments were able to control their national economies (Coyle, 1999, pp 18 and 219). The effects of globalization, though, have led to a considerable erosion of power traditionally exercised by national governments. In view of the decline of the nation-state "it has become government, as well as corporate, policy to let the market decide" (Schwartz and Gibb, p. 139). Indeed, the

International Labour Organisation (ILO) has repeatedly underlined that public opinion will attain increasing importance over the next few years … "as will the sanction of the market" (opcit, p. 140).

The role played by public opinion in shaping corporate behaviour is, of course, not new. What is new is the empowerment of the customer in the new economy, as a result of the undergoing revolution in information and communication technologies. Consumers are nowadays informed and use this information to wield power over companies. Hence, companies experiencing crises as a result of perceived irresponsible social behaviour include Nestle, Royal Dutch/Shell, Union Carbide, Texaco and Nike (Schwartz and Gibb, 1999, pp. 25-65). Responding to enhanced customer information -coupled with consumers' increasing ability to react- companies may be expected to develop even stronger cultures of responsibility, proactively seeking to increasingly honour their moral obligations to society in the 21st century.

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