CORPORATE ETHICS: A TOOL FOR ORGANIZATIONAL PERFORMANCE

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ABSTRACT

Corporate organizations comprise individuals who identify with the vision, mission and goals of the organization in terms of meeting socio-economic needs of a target market. These individuals upon identifying with organization, guide themselves with the rules and norms of the organizations and the environment, in the course of satisfying the needs of a target market, and making profits in return. When social rules guide a business concern, it is called corporate ethics. This study, anchored on the organizational embeddedness theory, and set out to identify the roles of corporate ethics in organizational performance. The study, which was entirely a review of literature, found that corporate ethics are products of social rules and norms guiding processes, leading to the production of desirable products. The study also found that corporate ethics is the teleprompter for training and efficient performance of workers. The study concludes that corporate ethics drive organizational performance, and recommends that organizations that want to achieve improved performance should be guided by rules and norms that align with socially accepted standards of business conduct.

Keywords: Corporate ethics, market share, organizational performance, organizational embeddedness theory

INTRODUCTION

Organizations consist individuals from diverse *religio-cultural*, socio-economic, academic and moral backgrounds, but who volunteer to suspend and in some cases, permanently jettison certain old values, principles and behaviours in order to fit well with purpose and objectives of the organizations they owe their allegiance. Tamunomiebi (2005) states that organizational behaviour evoke a system of cooperative relationship among people in an organization.

To enhance cohesiveness and goal attainment, firms undergo a transformation process, first with its members (employees) by establishing ethics through trainings, procedures and standards. Organizations that want to prosper over the long term are well advised to consider corporate ethics, because corporate ethics dictate standards of conduct and moral values that govern workplace actions and decisions (Boone & Kurtz, 2011). While trying to achieve targets, organizations use institutionalized mechanisms, such as structures, procedures, systems and rules that often run contrary to human expectations (Johnnie, 2002). This means that firms introduce, train, influence and enculturate workers into their ethics, with a view to influencing performance in terms of market share, growth and survival.

Tamunomiebi and Wobodo (2018) assert that, employees as organizational resources constitute the life blood of organization as its success or failure depends largely on their performance. This performance is based on certain codes or standard, otherwise called ethics of that organization. This is as Boone et al. (2011) opined that choices of individual performance are strongly influenced by standards of conduct established within organizations where people work. However, organizations must derive their codes of conduct from the environment in which they are embedded. This is because we can gain fuller insight into ourselves only by understanding the society in which we live (Zanden 1996).

Herein, we agree with Boone et al. (2011) that no individual in organization makes decisions in a vacuum. They do so within constraints imposed by laid down policies and procedures, which are aimed at orientating employees into a team of like-minds that are grouped to enable the achievement of corporate objectives in ways that are socially acceptable.

In identifying and stressing the pivotal role of organizational ethics on individual, corporate and organizational objectives, Ivancevich et al. (2005) noted that corporate ethic is a transformation concept because ethical issues are likely to be present when power is used outside the bounds of formal authority, policies, procedures, job descriptions, and when organizational goals disregard the environment, or leads to lying to customers and disobeying regulatory agencies.

This study believes that apart from its popular objectives of profit, organizations do modify the idiosyncrasies and morals of employees, which in turn extends to society. In other words, the transformation process of organizations is not limited to conversion of raw materials into products, but includes transformation of behaviours internally and externally, to guarantee the attainment of objectives in terms of market share, survival and growth.

In this study, we explore the concept of corporate ethics, and argues its relevance to performance of organizations. The succeeding section presents arguments, reports and submissions in extant literature, on the concept of corporate ethics and its roles in enhancing performance of firms. The study is premised on organizational embeddedness theory.

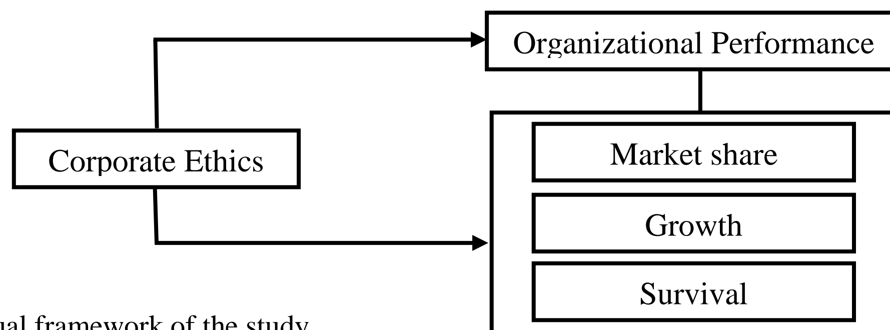

Fig. 1: Conceptual framework of the study.
Source: Desk Research (2022)

LITERATURE REVIEW

Baseline Theory

The baseline theory of this study is organizational embeddedness theory, which states that economic actions are embedded in social relations which sometimes facilitate, and other times derail exchange. In other word, organizations that are likely to survive within a given population will, of necessity, be deeply entrenched within that population (Ahiuzu & Asawo, 2016).

Organizational embeddedness is conceived as the totality of forces – fits, links, and sacrifices that keep workers glued to their current employment.

An ongoing challenge of HRM is eliciting the commitment and engagement of highly skilled employees and reducing employee turnover, so as to enhance overall organizational success. Organizational embeddedness theory therefore, seeks to explain how firms can build and grow employee commitment and engagement at work, as well as reduce turnover (Kiazad et al., 2005). Studies that are based on the framework of Mitchell et al. (2001) have shown that organizational embeddedness increase organizational commitment (Allen & Shanock, 2013) job satisfaction (Lee et al., 2004) and reduce turnover intentions and behavior (Kiazad et al., 2005).

Organizational embeddedness rests on three key planks (links, fit and sacrifice (Kiazad et al., 2005). Links describe to connections (formal or informal) between and among employees in the organization. The more links there are in the organization, the more employees are likely to remain in the organization. Fit represents the extent to which employees perceives compatibility with the values and norms of the organization. Personal values, career goals, and plans of employees must should fit with the culture and demands of the organization in terms of knowledge, skills, and abilities. The better the fit, the more likely employees remain committed to the organization. Finally, sacrifice is employees' perceived cost of psychological benefits that may be lost if they the organization. Workers consider financial and financial loses they will incur, if they leave their current employment. Employees will naturally find it difficult to leave an organization if they perceive that they have much to lose if they leave.

Corporate Ethics

Ethical theories deal with such questions as, "how ought men to behave?", "what is the good life for man? (Popkin & Stroll 1993). Hence, ethics refers to a set of principles by which people live. Mehrdad et al. (2012) defined ethics as "a good way of being" for a wise course of action, that afflicts the least suffering to humans and nature, achieving the greatest net benefit to society and economy, and enriching the capability of the system in which it is functioning, being fair in all its dealings with proximate and remote stakeholders, being prepared to correct poor habits and enduring virtuous corporate character in totality.

Deductively, this study sees corporate ethics as the interpretation, recodification and implementation of social ethics through processes and products for the attainment of corporate goals and objectives. It refers to a set of principles that guide businesses dealing with such questions as, "how ought businesses to behave", "what is the good way of doing business for man in his society that will give him good pleasure.

These definitions imply that organizations achieve performance goals by carefully considering environmental laws, cultures and behaviours in incorporating, processing, producing and offering products to meet needs of target markets. Corporate ethics evolved from the concept of corporate social responsibility and systems theory. Systems theory regards the organization generally as a sub-system with four basic elements; inputs, transformation process, output and feedback (Jaja & Zeb-Obipi 2005). Similarly, viewed as an open system, it is characterized by an environment, energy importation, product exportation, entropy, information feedback, dynamic homeostasis, differentiation, equi-finality, subsystems interdependence and synergy (Baridam, 1993, Griffin, 1990, Thieraufe, 1997).

The philosophy that underscores this is that organizations do not exist or operate in a vacuum or in isolation but in a society with extant laws, rules. The organization's process of receiving inputs, transformation inputs into output, and receiving feedback must be done in a manner that agrees with the ethics (rules) of that environment. Thus, Baadom (2003) described corporate social responsibility as, management decisions and actions taken for reasons at least, partially beyond the organizations direct economic or technical interest. This means the responsibility of business toward the society within which it exists and operates to guarantee its peaceful existence and performance. This is detailed by Carroll (1991) on a pyramid as follows:

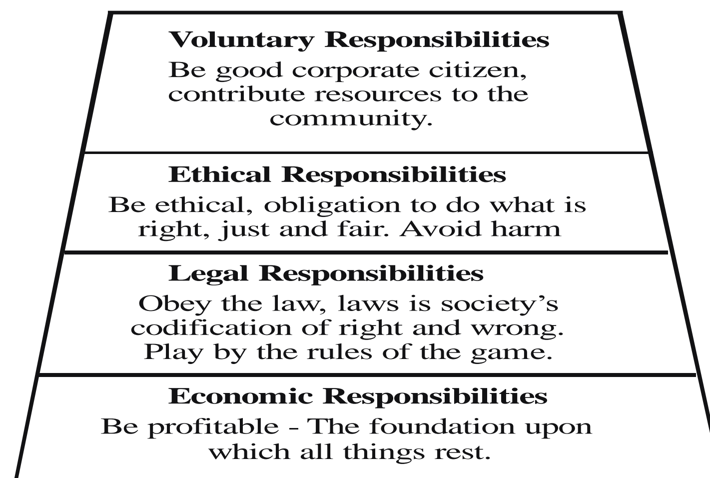

Fig. 2: Source: Carroll (1991)

Implications of the pyramid are that (1) the performance of an organization in the areas of market share, growth and survival must be a function of its being a good corporate citizen that observes social ethics in terms of the society considers right, just and fair; (2) it must show that the products it offers are in conformity with what the society considers right and acceptable. Only then can its products perform to earn market share, growth and make profit upon which it can continue to survive as a corporate citizen. Andrew (1993) noted that the purpose of ethical management is "to catch any new spirit" and embody it in voluntary standards without waiting for legal compulsion.

Similarly, Boone et al. (2011) states that business ethics are now in the spotlight as never before, as companies increasingly realize that they have to work harder to earn the trust of their publics, and many have taken on the challenge as if their very survival depends on it. Corporate ethics encompasses marketing, finance, accounting, production, human resource, environment and insurance.

Organizational Performance

Performance is an essential outcome in business. This is because the continuous existence of any establishment depends on its performance (Mills & Konya, 2019). Organizational performance is defined as the record of achievements made by an organization over a given time, and measurable through several indices (Zeb-Obipi, 2015). These records of achievements include records on market share, growth and survival. Organizational performance involves analyzing a company's performance against its objectives (Mills et al. 2019). This study views organizational performance to involve the analysis of a firm's performance against its stated objectives. This analysis in this study focuses on three main outcomes, market share, growth and survival.

Armstrong (2009) argued that the distinctive feature of Human Resource Management (HRM) is its assumption that improved performance is achieved through the people in the organization. If this is true, our argument is that corporate ethics is the teleprompter to workers. Purcell et al. contends that it is misleading to assume that simply because HR practices are present they will be implemented as intended.

Corporate Ethics and Market Share

Market share is that level of apportionment of the organization's product in the market (Oga et al., 2018). Market share involve actual sales for a product in a given period in a given geographical area; that is, sales performance of a product class in the market, rather than a collection of buyers for it (Cooper & Nakanishi, 2010).

Green (2018) states that market share expresses the percentages of total sales of an industry or market controlled by a specific company over an explicit period of time. The calculation is done by apprehending the company's sales as at the time in question and dividing it by the industrial total sales of the referenced period (Green, 2018).

Our concern here is the relationship of the organization's share of the industry's total sales of the period as a result of their corporate ethics. The question is, what role do corporate ethics play in helping the firm gain narket share? In answer, McMurrian and Matulich (2006) stated that there is a positive correlation between an organization's ethical behaviours and activities (such as sales) and the organizations bottom line results. McMurrian and Matulich (2006) further asserts that, a reputation for ethical business activities can be a major source of competitive advantage.

Ferrell (2004) listed the advantages of corporate ethics to include higher levels of efficiency in operations, higher levels of commitment and higher loyalty from employees, higher levels of perceived product quality, higher levels of customer loyalty and retention and better financial performance. Also, Heskett et al. (1997) in the diagram below do more self-explanatory illustrations on corporate ethics – market share relationships.

The Service Profit Chain

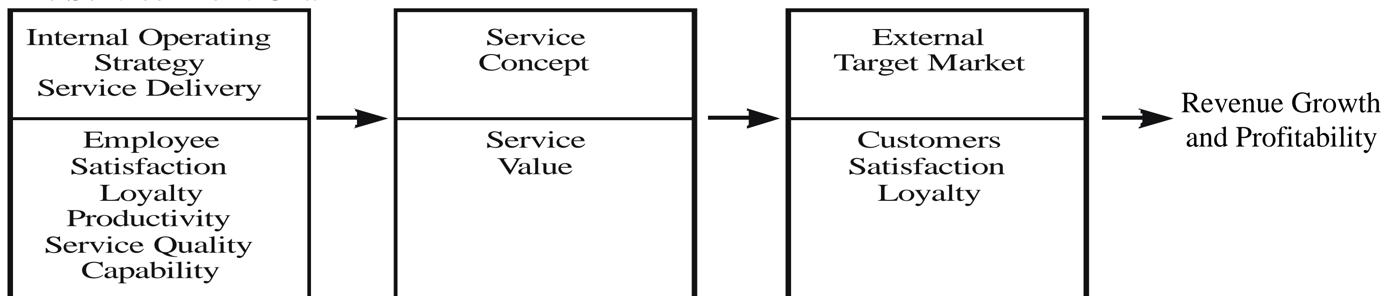

Fig. 3: Source: Heskett et al. (1997)

Heskett et al. (1997) showed clearly in model above that firms like remain leaders in their respective markets and industries by designing and maintaining mutually beneficial corporate ethics. They found strong correlations between three internal and market-place variables: (1) customer loyalty and profit; (2) satisfaction and customer loyalty; and (3) employee satisfaction and customer satisfaction (McMurrian et al. 2006).

We deduce that employee skilleds in executing properly crafted corporate ethics are highly satisfied with their jobs and are very loyal to their organization and far more productive, professional in delivering high levels of quality products and services to customers. That as a result of these, high level of customers hold positive attitudes and satisfaction towards the organization, resulting in customer loyalty in form of repeat purchases, referrals (cognitive assonance). The end result of this to the organization, are large market shares, market leadership, profitability, growth and survival.

Corporate Ethics and Growth

The term growth means increase in size, or improvement in quality, as a result of a process of development in which interacting series of internal changes lead to increases in size accompanied by change in the characteristics in the growing object (Gerald & Elisifa, 2013). This interaction is between the firm and social codes.

Every organization must expand from one stage to another for such organization to be categorized as one that is performing well. Castrogiovanni (1996) argue that in benevolent environments, a firm's ability to exploit product market opportunities is measured by its sales growth rate. Castrogiovanni (1996) added that a firm's ability to maintain or increase its sales and market share in hostile environments, where there is increasing competition from both domestic and foreign firms, is a generally accepted performance indicator of short-term survival adjustment.

Business growth means increasing sales, assets, net profits and a chance to take advantage of the experience curve to reduce the per unit cost of products sold and thereby increase profit (Gerald et al., 2013). Business growth indicators include profit, output in terms of increase in production value or level, sales value, capacity in terms of value of assets, capital invested, production capacity and workforce size, structure in terms of increase in degree of formalization, and decentralization (Olomi, 2004). We therefore say, for a business to expand or grow within its operational environment to the extent that more people work there and remain, its products and services increasingly consumed, and makes more profit and it structurally decentralizes geographically, it is because it has conformed to the rules or codes of conduct of its business and environment.

Supporting this view, Onofe et al. (2015) carried out a study where they distributed 100 copies of questionnaire on Business Ethics and Corporate Growth (BECGQ) and concluded that the adoption of business ethical code of conduct and employee adherence to rules and regulations enhance corporate growth. Onofe et al. (2015) added that the performance of an organization in terms of growth, relies on its sound ethical conduct set to guide both management and employee in its daily activities.

Corporate Ethics and Survival

Survival is an organizational ability or state of continuing to live or exist, often despite difficulty, challenges or dangers (Mills et al., 2019). Organizational survival relates to how sustainable a firm is able to persistently maintain its existence, name, reputation, and harmony with its customers and environment in line with its vision and mission. Corporate ethics today receives wide attention because of the need for the profitability and sustainability of global organizations (Ugoani, 2019). He argued further that, elements that influence organizational sustainability

(Survival) include integrity, good governance and that integrity is a function of business ethics crucial to minimize some business problems such as imperfect corporate governance.

The survival of an organization as an open, and subsystem in the larger social system would depend on its ability to understand and implement the model below:

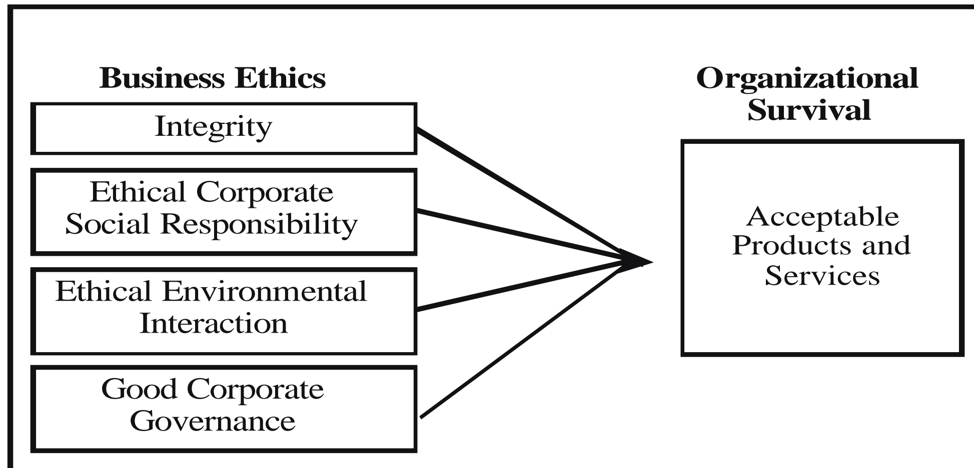

Fig. 4: A model of corporate ethics and survival
Source: Desk Research 2021

Models are representatives of reality and they have been often used in management research to explain, clarify and understand issues that would otherwise be buried in excess of words (Cleary 1992; Keeves, 1997).

The above model illustrates the fact that the survival or performance of a corporate organization rests in the firm's ability to secure its reputation by way of maintaining integrity. That is, it does not compromise on its socially-derived and acceptable values, in terms of quality and prices of its products and services.

Again, that in carrying out its corporate social responsibility, it should be ethical – obligation to do what is right, just, fair and avoid harm. This is as Davis and Blomstom (1975, as cited in Baadom, 2003) stated in their iron law of responsibility that corporate organizations are citizens of the society and should be responsible for the consequences of their action on the society. They added that, the power with which business firms operate is derived from the society and can be withdrawn by society (this is called social license). Conversely, corporate philanthropy should be done ethically, proactively and in a fiduciary mindset.

On interaction with its environment, the model proposes that business should not only consider the technical feasibility and economic viability of an activity, project, product or service but also the social acceptability of the activity. Baadom (2003) posited that firms dealing on soil can conduct social and environmental impact assessment (SEIA) while those dealing on products and services should consider fair price, taste and social cost.

The model explains that good governance is the effective and ethical implementation and supervision of all these without losing focus on its profit goals. In short, when firms offer its products and services ethically, it leads to survival.

CONCLUSION AND RECOMMENDATIONS

Businesses (corporate bodies) are subsystems embedded and dependent on codes of conduct governing that social environment. Performance of such business firms depends on their ability to interpret, recode and implement those social ethics through processes, products and services for the actualization of their corporate goals and objectives.

The implication is that business organizations that will achieve their performance goals must carefully consider the laws of the environment, the cultures, tastes and behaviours of the people among whom they are embedded right from incorporating, in their processes and processing, producing and offering products and services.

This is because corporate organizations live in, and for society. Firms' performance – market share, growth and survival is or are reward from the social system to the corporate-subsystem. Westwood and Clegg (2003) summed it when they stated that this "is a form of determinism under which action is shaped by the external context". It "refers to the process by which some mainstream economic schemes overlook or mis-specify when they assume that social ties affect economic behaviour only minimally (Uzzi 2000).

The study recommends that intending corporate organizations should base their feasibility study within the context of their environment's social study while existing ones should conduct research on how to be a good corporate citizen.

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