2011 International Conference on Financial Management and Economics
IPEDR vol.11 (2011) © (2011) IACSIT Press, Singapore

Does the Economic Crisis Call for Reinforcing Ethics?

Geetanee Napal

Associate Professor. Faculty of Law and Management University of Mauritius

Email: vnapal@uom.ac.mu

Abstract. A few years ago, economists used the term 'new economy' to designate a world in evolution. Attention was drawn to the fact that while some people think that the new economy has been and gone, others believe that there never was any 'new economy'. Of the powerful forces driving change are, technology, globalization, the increasing value of intangible assets and the 'war for talent'. These forces are reshaping the way businesses manage their relationships in varying national, regional and international contexts, with people, and with other corporate entities. Organizations are expected to operate in a more open way and be more accountable. There is also the expectation that the business functions on the basis of an explicit contract with its stakeholders. Amongst other things, the corporation should ideally minimize the negative impact of decision-making on the society and the environment. This paper focuses on the weaknesses facing the global economy in a crisis situation and proposes some potential solutions. Referring to the current economic crisis, emphasis is laid on problems commonly experienced in a global context that is, declining values often resulting in conflicting situations, negatively impacting on bottom-line. Solutions include reinforcing values, nurturing the right attitude in a professional context and managing stakeholder relations by having recourse to compliance programs.

Keywords: communication, compliance, conflict, ethics/ethical, global.

1. Introduction

According to a recent World Economic Forum survey, over two-thirds of participants associate the current economic crisis with a crisis of ethics and values. A population of 130,000 from across the globe responded to the World Economic Forum survey. Respondents were from various countries, including France, Germany, India, Indonesia, Israel, Mexico, Saudi Arabia, South Africa, Turkey and the United States (Baxter, 2010).

Are perceptions changing? If a growing population believes that we need to replace priorities like reliance on economic growth and material wellbeing, by simple things like employee welfare and morality instead, does this mean we are moving towards a new era of economic morality? Why did we experience declining moral standards leading to an economic crisis in the first place? Do we need new ethics to combat unhealthy competition whereby people are racing in the wrong direction in an attempt to surpass their competitors?

The weaknesses facing business corporations include amongst other things, poor communication, declining values, lack of rationality in decision-making, and the mismanagement of stakeholder relations. The evidence from the World Economic Forum study and the available literature establishes that a lack of or absence of ethics and values is at the root of many of the problems facing the global community today.

2. Is There a Need to Reinforce Ethics?

Researchers draw our attention to the constraints facing both individuals and nations, thereby leading to increasing uncertainty, chaos and instability (Roach, 2009; Smick, 2008). Amidst a crisis where no one knows how bad things can get in today's unpredictable global economy, where there is no straight solution to problems facing humanity, one thing is clear: we should aim at preventing further crises of an economic and social nature (Friedman, 2009). Some economists are of the view that better regulation could have prevented such crisis in the first place. More particularly, there is consensus on one point, namely that economies should improve on the execution of regulation and supervision as control devices for containing emerging risks (Klitgaard, 2002, Deviers-Joncour, 2005). After all, regulations are only as good as regulators enforcing them, and this implies that codes of ethics will be effective, provided people heading key institutions believe in their potential to achieve satisfactory standards of conduct (McIntosh, et al., 2003; Roubini, 2010).

Does it make sense to say that the present economic situation or changing world calls for a new ethical dimension? Technology, globalization, the increasing value of intangible assets and the 'war for talent' are all driving the global economy, giving rise to new paradigms (Hagan and Moon, 2006; Richter and Mar, 2004). Greater accountability requires corporate leaders to re-think their approach to interacting on the global scene (Smick, 2008; Thompson, 2005). Attitudes must be reviewed and people must be trained to adapt to changes and plan for new risks, challenges and opportunities (Moon and Bonny, 2006; Roach, 2009). This new dimension to accountability calls for a wider ethical dimension that businesses must adopt. With globalization and increased interaction with business partners from varying cultures comes the risk for greater ethical conflicts (Hagan and Moon, 2006). Management is faced with the challenge to prepare their workforce to avoid such conflicts, and preserve their intangible assets (Roach, 2009). By their nature, intangible assets are elusive. If we were to assess the value of intangibles, we would need to pay attention to the perception and attitudes of individuals inclusive of employees, customers, suppliers, and pressure groups amongst other stakeholders. Businesses must manage risks so as to ensure they preserve one of their key intangible assets that is, their reputation. Nothing is more important than the goodwill of stakeholders in a crisis era (Fritzsche, 2005; Thompson, 2005).

Good business is the outcome of economic relationships among various groups of stakeholders who are key players in the decision making process, and have their contribution to bring to the ethics of the decision making process (McIntosh et al, 2003). Decisions can be influenced in either ethical or unethical direction. In a global context, stakeholders are bound to be located in different regions around the world, rather than in a single country. Amongst the challenges facing today's corporate executive is the management of the complex set of relationships generated by globalization (Fritzsche, 2005; Roach, 2009). This task tends to be more complicated when confronted with stakeholders with conflicting claims. Conflicting claims are likely to give rise to ethical issues that is, problems that involve moral relationships between people (Epstein et al. 1994; Richter and Mar, 2004). In any global context, the ethical dimensions of such issues need to be managed, if the aim is to promote healthy stakeholder relationships (Brenner and Molander, 1977; Hagan and Moon, 2006; Vitell and Festervand, 1987). A lack of ethics tends to distort the market system and contribute to an inefficient allocation of resources, adversely impacting on performance and results in the long term (Klitgaard, 2002).

In times of crisis, success or survival is driven by a company's ability to use its assets in new and more inventive ways. Ethics is about the goodwill and reputation of both individuals and institutions. The importance of intangible assets should be emphasized, as goodwill itself constitutes a significant invaluable intangible asset. While the assets of an organization used to be limited to a large extent to visible balance sheet components in the form of property, equipment and physical inventory, the concept has evolved lately. Organizational assets are no longer restricted to classical balance sheet items. Today, more emphasis should be placed on intangibles like intellectual property in the form of intellectual capital, innovation capacity and codified knowledge about products and processes (Hagan and Moon, 2006). Stakeholder assets should be valued, because in this global community, quality interactions with key stakeholders can help the business gain and sustain a meaningful competitive edge (Richter and Mar, 2004). Customer assets that is, the significance of a good customer base should be emphasized, as customer loyalty is one of the most crucial assets of the business. Of equal importance are employee assets and supplier assets that is, the human capital of the workforce—the knowledge and skills base of employees—and relationships with key suppliers, respectively. One way of preserving stakeholder relationships is to incorporate ethics in the decision-making process (Fritzsche, 2005; Thompson, 2005). To enable this, the corporate culture must support ethical decision-making, which in turn requires some measurement device that allows key decision-makers to evaluate the ethical dimension of their decisions.

3. Ethical Issues in a Global Context

In spite of the evidence of an increasing number of companies that have recourse to codes of conduct, training in ethics and feedback gathering devices in First World countries (Moon and Bonny, 2006), some flaws still prevail in the system. Weaknesses experienced and losses incurred across some organizations are sometimes the outcome of poor methods of communication. More specifically, codes of conduct are not always communicated to the relevant public. It is important to disseminate the content of codes of conduct/codes of ethics to all stakeholders so that all members become aware of their organization's expected standards. Publicizing codes is the expression of a commitment to minimum standards of conduct (McIntosh et al., 2003).

Ethics training should not be restricted to communicating standards of ethics and manuals spelling out company policy. Employees should be taught how to apply ethics in practice so that they develop the necessary skills that would help them handle ethical dilemmas when these arise (Tierney, 1996). Employees should be encouraged to consult and share ideas with colleagues. Ethics training should cover aspects of poor decision-making while focusing on factors likely to influence decision makers.

Stakeholder relations should be properly managed so as to prevent problems of an internal nature from taking a disproportionate dimension. Organizations need good communication mechanisms to manage stakeholder relations on a professional basis. Amongst problems adding to the corruption balance sheet of today's business are flawed whistle-blowing mechanisms that offer no protection to the whistle blower. For whistle-blowing to operate as a successful mechanism, corporate policies must be devised in such a way as to enable the whistle blower to denounce wrongdoing internally, while guaranteeing his anonymity and ensuring his protection. Anonymous hotlines provide a solution. Complementary to this however, officers must be trained to respect the confidentiality aspect of their job.

Factors that motivate ethical behavior throughout the organization include the will to protect the goodwill of the organization or further improve its reputation, the will to adhere to corporate governance guidelines and the need for effective internal control devices to manage business risks. There is evidence that increasing importance is given to values as the key determinant of organizational behavior. In general, companies that have introduced and implemented ethics programs believe that these serve to protect the business while they contribute to higher levels of commitment amongst the people (Moon and Bonny, 2006; Richter and Mar, 2004)). As the global economy faces new corporate paradigms, there is a higher risk of ethical conflict.

If ethical conflicts are not managed properly, the goodwill of the business can suffer substantial damage. Hagan and Moon (2006) propose some initiatives that can be adopted to reduce the potential for ethical conflict, amongst which is the proper management of stakeholder relations. They believe that good collaboration leads to effective competition. Strong teamwork is the key to successful business. Therefore, employees, suppliers, customers, and business partners should collaborate professionally in order to achieve organizational goals (Fritzsche, 2005). It is as important to monitor expectations and performance levels, as it is to account for the non-financial performance of the organization and report on it. It is equally essential to develop and implement policies for corporate social responsibility or corporate citizenship (McIntosh et al., 2003; Richter and Mar, 2004). Stakeholder relationships must be managed effectively to retain key resources and avoid ethical conflicts.

4. A New Ethical Dimension

4.1. Projecting the Right Attitude

The goodwill of an organization is, to a large extent, the product of stakeholder behavior in a professional context. Moon and Bonny (2006) give the example of an ethical problem experienced at an individual level, requiring an instinctive response of an employee who, at the extreme may have to make a decision as a matter of life or death. In the process, various options must be considered to ensure the decision maker selects the best course of action. One way of ensuring proper behavior at the level of the corporation is to define each stakeholder's responsibilities clearly, so that everyone knows one another's duty towards customers, suppliers, competitors and the environment. This enables better management of stakeholder relationships, both internally and externally (Richter and Mar, 2004). At BP for example, there is a set of business policies where different areas are covered. These are ethics, environment, employees, relationships, finance and control. Ethical businesses stretch their policies beyond compliance. Some organizations devise business policies and relate those to every performance contract (McIntosh et al., 2003). Some require very demanding objectives and performance targets. Ethical management influences business from various angles, including structure, mode of operation, processes and culture.

Some organizations aim at putting ethics before profits. The Body Shop for instance, banned the use of PVC from its packaging and products in 1991, the objective being to protect the environment, and avoid health hazards. Others give priority to stakeholders like customers and suppliers, placing the interests of the latter above short-term financial gains. Some businesses rank the essence of commitment to the local community above commercial success (Moon and Bonny, 2006). There is evidence that business earns goodwill when ethics is given priority in daily professional operations. While codes of conduct have proved useful in some contexts, they are no longer viewed as sufficient. Codes do provide guidance as to how to handle moral dilemmas, but other complementary approaches are recommended. It is important to link ethics with worker behavior. In many cases, management consider ethics programs – that is, policies, processes and educational and training initiatives that spell out the ethics of an organization – as a mechanism that helps reduce the risk of ethical misconduct or wrongdoing at a professional level (Johnson, 2007; McIntosh et al., 2003). The objective of ethics training is to help employees understand how to translate ethics into operating procedures and workplace behavior. Ethics programs rely heavily on rules and regulations, the aim being to achieve compliance.

4.2. Compliance Programs

Compliance programs are expensive, so it is advisable that management establish what practices work best to produce an ethical workplace. Management should be clear about what to expect of an ethics program. The evidence is that people in management positions are still unsure about how to formulate strategies and systems that would encourage ethical conduct and help promote a moral culture (Hoffman et al., 2006). When devising compliance or ethics programs, attention must be paid to how employees view the objectives of such programs. Various organizational factors are likely to affect the effectiveness of ethics programs, and it is important to consider these as well. Several measures can be adopted to promote integrity (Dobel, 2003). A commonly used method is the survey. Data can be collected to assess employee perceptions, attitudes and behavior at the level of the organization, so as to optimize the effectiveness of compliance programs. In one organization, employees were asked to observe and report unethical behavior. The survey was administered to all employees and managers, the aim being to investigate potential differences between the perceptions and attitudes of employees and those of managers.

Amongst other objectives, compliance programs should help establish a shared set of organizational values that guide behavior. One of the key priorities of compliance programs is to prevent, detect and punish violations of the law. The aim is to make stakeholders internal to the organization more aware of ethical issues and equip them to combat unethical and illegal behavior (Johnson, 2007). If properly managed, compliance programs would help improve the public image of the organization, maintain good relationships with external stakeholders, and protect management from blame for wrongdoing (Fritzsche, 2005). The workforce should be encouraged to seek advice when faced with ethical problems. A climate of open communication should be promoted, so as to motivate people to report violations witnessed internally. This mode would, on the one hand, help build commitment and loyalty, and on the other, enhance ethical decision-making. Successful accomplishment of the above would depend on the availability of a formal mechanism enabling the workforce to seek assistance and on how familiar employees are with the content of the compliance program. The frequency of reference to the code of conduct as a guide to behavior and the extent to which employee performance appraisals deal with ethics issues are key determinants of a corporate culture favoring ethical behavior.

Amongst initiatives that can be adopted at corporate level are efforts to detect violators, and regular follow up on reports of ethics concerns. Management should practise ethical leadership and ensure there is consistency between ethics and compliance policies and corporate practice (Richter and Mar, 2004).

Management should show that they value ethics as much as they are concerned about the bottom line. There should be evidence of fair employment practices and openness about ethics and values. Employees should be treated fairly, and open discussions of ethical issues within the organization should be encouraged. It is equally important to promote an ethical culture by integrating ethics and values into organizational decision-making, rewarding ethical behavior, sanctioning unethical behavior and promoting obedience to authority (Fritzsche, 2005; Johnson, 2007). A result-oriented approach that leads to minimal unethical conduct and stronger employee commitment is likely to contribute to the success of ethics programs.

Essential components of ethics programs include a values/mission statement; codes of conduct; consideration of stakeholders' needs; acknowledgements of compliance; proper reporting channels; feedback mechanisms e.g. surveys, focus groups; employees with ethics responsibility; business ethics training; ethical criteria in performance reviews; ethical criteria in employee appraisals; an objective assessment of business ethics activities conducted by external bodies (McIntosh et al., 2003). Some organizations go for a value-based approach whereby they aim at achieving a match between corporate and individual values (Hoffman et al., 2006). The perception is that this mode motivates the individual to project the right behavior (Moon and Bonny, 2006). How realistic is this approach in a context of work where there are problem attitudes though? It is certainly a more democratic approach than imposing rules and regulations through the authoritarian management style. The democratic value-based approach is believed to be sustainable in the longer term (Hoffman et al., 2006; Thompson, 2005). In fact, what it does is market the idea that the employee is paid for making the right choices based on commonly agreed values and principles.

Stakeholders are becoming aware of the long-term damage that unethical conduct can potentially cause. Generally speaking, people are no longer insensitive to misconduct on the part of powerful individuals misusing their professional position to avail of personal gains. After all, unethical behavior is the product of poor administration in a system where control mechanisms are not forceful enough (Deviers-Joncour, 2005; Rose-Ackerman, 1999). In a global world where different cultures are interacting, care must be exercised so as to promote harmonious relations amongst stakeholders (Fritzsche, 2005). How does one about controlling the impact of monopolistic power abuse and discretionary power conferred on specific individuals? Some cultures encourage illicit transactions under the pretense of expediting the provision of a public service (Ross, 1992). These practices constitute acts of corruption. The outcome is increased costs, which in turn inflate prices that are eventually passed on to customers (Klitgaard, 2002; Klitgaard et al., 2002; Dobel, 2003). What can be done to restore trust in a system where the main governing bodies and institutions have lost their credibility, having long followed traditions of unethical practices? Can one impose notions of accountability and responsibility in such cultures?

Sometimes, people from sectors that are exposed to unethical practices—like the customs or the police—are more likely to get caught and face sanctions than high-level officials guilty of economic crime that is, having been involved in fraudulent acts involving the misappropriation of funds (Ross, 1992). Investigative institutions, in countries of the developing world as well as newly industrialized economies, should be empowered and allowed to function independently of political interference. It is in that part of the world that power and wealth tend to be misallocated, breeding injustice and widening the gap between rich and poor.

5. Conclusion

In the absence of a reliable regulatory framework, trends and traditions of unethical behavior can only lead us to injustice, inequity and inefficiency, while encouraging an easy and irresponsible mode of life. It may take substantial time, energy and effort to get out of such a system, but it is well worth a try.

With global business and rapidly evolving technology, comes the risk for ethical conflict, both internally and externally. From an internal perspective, ethical conflicts can significantly damage stakeholder relations. An organization that fails to manage internal conflicts runs the risk of ruining its reputation. Today's business corporations need to adopt a different approach to responsibility and accountability, which calls for a new dimension to ethics altogether. Organizations should avail of proper communication mechanisms, so as to facilitate access to information that would help employees distinguish between acceptable and unacceptable behavior. Transparency must be reinforced and emphasis must be laid on education, in an attempt to train people in ethics, so that they know their rights. Good ethics and proper communication can help organizational members and business partners understand one another's views and respond to corporate and individual needs appropriately. This is the one way to control conflicts of an ethical nature and secure healthy stakeholder relations in a global climate. Proper management helps shape and sustain the goodwill of the organization in the long term.

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