Review Article

Business Ethics and Organization Performance: A Critical Review

Abstract

Aim: The objective of this study is to critically review the relationship between business ethics and organizational performance.

Methods: The sources of data for thisreview studywere secondary data which involves a profound review of the past work of authors to test the alignment of the review objectives. The paper focuses on three main theories of business ethics, Utilitarianism theory, Deontological theory and Norm theory.

The three theories were used because of the significant correlation they have to this study's objective, making it easier to understand the roles of business ethics towards the organization's performance. It reviewed elements that influence business ethics and organizationalperformance including integrity, good corporate governance, transparency, honesty, confidentiality, fairness, and corporate social responsibility.Business ethics has many dimensions, but the purpose of business ethics, as a discipline of study is not very much about teaching the difference between right and wrong, but to give organizations the tools for dealing with matters of moral complexity for strategic decisions that could lead to the anticipated performance.

Conclusion: Following a critical review of the subject, it was discovered that organizations that aspire to succeed cannot do without incorporating certain business ethics into their corporate governance.Therefore, setting a system of balanced ethical principles in business is the foundation for any business system to reach its optimum performance.

Keywords: Ethics, business ethics, organization, performance

Introduction

Most people think that ethics and profits are mutually opposed to one another and that if an organization is ethical, it cannot make enough profits. However, it is not only that organizations with business ethics made profits, but more importantly have discharged social responsibilities, that have survived the competition and turbulent changes, and have continued to flourish undiminished.

Businesses are becoming more competitive and more organizations are creating niches with business ethics that could give them a competitive edge over their competitors. They strive to adopt ethics that will provide standard practice to guide the organization itself, its employees and the external environment. The first ethical obligation of every business is to make profits for its shareholders, employees, creditors, and most importantly, itself, so it can discharge its social responsibilities and welfare commitments.

The concept of ethics deals with how decisions affect people and organizations. The performance of an organization is sometimes based on the ethical work climate which reflects the collective moral reasoning of organization members. Thus, a strong ethical climate provides employees with a foundation for thinking about moral issues.[1]

According to Jaja and Okwandu[2] ethics is the science relating to moral action and one's values system. This includes individuals who are acting on behalf of a business entity as it is known that the right conduct of individuals will be transferred to professional settings.Several studies exist on business ethics and organizational performance. According to Machan[3] business ethics is related to the process by which good conductis applied in business.

Business ethics is the study of appropriate business policies and practices in an organization.The study of business ethics affords the organization the parameters of behaviors that are acceptable and unacceptable to the employees and the organization. It provides the standard practices and key indicators to compare their behaviors and actions. Business ethics provides guides for professional behavior and helps business owners to deal with managerial misconduct. Business ethics is very important for organizational performance as it promotes sustainable profitability and economic growth.

The objective of this study is to review the relationship between business ethics and organizationalperformance by assessingthe effects of business ethics on organizational performance.

Conceptual Review

Ethics

Rossy[4] defined ethics as the art and discipline of applying principles and frameworks to analyze and resolve complex moral dilemmas.Ethics are principles that explain what is good and right and what is bad and wrong and that prescribe a code of behavior based on such practical definitions. Ethics are self-regulatory guidelines for making decisions and defining professions. By establishing ethical codes, professional organizations maintain the integrity of the profession, define the expected conduct of members and protect the welfare of subjects and clients.[5]In summary, ethics are standards of morality that guide individuals and organizations in certain norms of conduct when dealing with internal and external environments. Ethics involves duties, best practices, and values that are important for the sustainability of an individual or organization.

Business Ethics and Organization Performance

Business ethics are critical to effective business leadership. According to Akanwa and Agu[6]the leadership role of business in society makes it imperative for management to champion the course of ethical conduct in business. They observe that without ethical business practices, there would be irrationality, irresponsibility, illegality and corruption that would lead to the unsustainability of the organization.Business ethics involves the organizational principles, sets of values, standards and norms that influence the actions and behavior of an individual in the organization. Business ethics attract customers for the firm's products and thus boost sales and profit; business ethics reduces staff turnover and makes employees stay in business, thereby, increasing productivity. Business ethics attract investors to invest in business organizations,raise the company's share price and protects the business from takeover.

However, unethical behavior may damage a firm's corporate image and reputation and make the firm less appealing to stakeholders, such that profits could fall as a result. Conducting businesses in an ethical and socially friendly manner is part of the social contract organizations have with the society in which they operate. For instance, as asserted by Srivastava, Negi, Mishra & Pandey[7] that the state is entitled to a certain share as per the income tax laws. Utmost transparency has to be exerted regarding the profit and loss account and the balance sheet, which is the mark of integrity and good business ethics of the organization.

Business ethics reveals standards for conduct and decision-making in an organization and it determines how far the organization will go. Business ethics vary from the law but agree in some situations.Business ethics are essential to ensure ethical business decision-making and to this

level, many global organizations with record-proven performance have codes of ethics with enormous regard to prevailing laws.
A code of ethics is a formal statement of the organization's ethics and values that is designed to guide the employees' conduct and activities of the organization toward its stakeholders.According to Gomez-Meija and Blakin[8] and as reviewed by Ugoani[9], stakeholders include employees, customers, competitors and shareholders. Although the primary aim of an organization is to earn profits, its primary function includes satisfying stakeholders and protecting the environment. It is through the satisfaction of the stakeholders and the protection of the environment that the continued existence of the business and its performance will be guaranteed.

Organizational performance is directly linked to sustainable growth which encompasses a business model that creates consistent values;enhances financial, environmental, ethical and social capital. Organizational performance comprises the actual output or results of an organization as measured against its intended outputs. According to Richard et al.[10]organizational performance encompasses three specific areas of firm outcomes. These include financial performance in terms of profits, product market performance in terms of market share and shareholder return performance. Organizational performance involves identifying goals that it wants to achieve, creating strategic plans to achieve the goals, carrying out those plans and determining whether the goals were achieved. High business ethics toward organizational goals enhances performance even in the midst of social or political challenges.

Elements of Business Ethics and Organization Performance

Elements that influence business ethics and organizational performance include integrity, good corporate governance, transparency, honesty, confidentiality, fairness, and corporate social responsibility among others. Integrity as a function of business ethics is very crucial to any business. Integrity can minimize some of the problems of the business enterprise that could be created by weak and imperfect corporate governance mechanisms and therefore focus on growth-maximizing strategies. Integrity is an intrinsic value, a value that the individual does not develop because of an outer primitive element, but because of a culture of inner morality.

Integrity is the inner sense of wholeness that derives from qualities such as honesty and consistency of character. As opined by Krishner[11] and reviewed by Ibobo[12], an individual is said to possess the virtue of integrity if the person's action is based upon an internally consistent framework of principles. Also, integrity is what humans do in the absence of people around or what firms consistently do and how they do it. It involves concepts like continuous consistency in value, expectations, methods, actions, measures, outcomes, and principles. Consistency is the key to establishing integrity and the consistency of a business's actions will determine the trust a consumer will place in it.

Pearce and Robinson[13] stressed that when discussing business ethics, it is important to emphasize corporate social responsibility because a business does not function in a vacuum, but exists to serve, depends upon its environment, cannot be separated from it, and therefore, has a responsibility to ensure its wellbeing. Corporate social responsibility is an important component of business ethics in the decision-making process that can be used to maximize profits and maintain organizational performance. However, an organization will first need to shore up its internal governance mechanisms before turning to the outside world to display its social concern. Corporate social responsibility (CSR) is the set of standards to which a companysubscribes in order to make an impact on society. Some scholars argue that organizations can do well by doing well[14-16] based on the assumption that meeting the needs of other stakeholders, directly creates value for shareholders.[16,17]

Transparency means transactions should be well-informed in a justified manner with their different stakeholders and society.As opined by Kolk,[18] transparency is highly essential in improving firms' operations and grants stakeholders the opportunity togetacquaintedwith the firm's undertakings in order to ascertain if it is appropriate in achieving the objective or not. Furthermore, Kolk[18] viewedtransparencyfroma dualperspective. Transparency could be viewed relativeto accountability required in corporate governance like staff-related ethical aspects of corporate governance to improve the performance of the organization.
Honesty is also an important part of business ethics because it helps to produce the activity of right and wrong. It suggests the means and ways of running a business with moral justifications. Confidentiality should be part of employees' terms because the team members must adhere to strict, written internal confidentiality policies. The details of clients are to be maintained with utmost privacy.

Discussion

Business Ethics Models and Frameworks

This paper discussed three main business ethics theories to test the literature onthe relationship between business ethics and organizational performance.
The theories are Utilitarianism theory, Deontological theory, and Norm theory.

Utilitarianism Theory:

This is an ethical theory that determines right from wrong by focusing on outcomes. Utilitarianism holds that the most ethical choice is the one that will produce the greatest good for the greatest number. It is the most common approach to moral reasoning used in business because of the way it accounts for costs and benefits. It believes that business conduct should take into account the consequence that would benefit the largest amount of people. This theory was propagated by many philosophers as a theory to ensure the outcome of various situations that help the maximum number of stakeholders. However, utilitarianism is arguably the most reason-based approach to determining right and wrong, it has obvious limitations.

Deontological Theory:

This theory states that ethical behavior should follow an established set of rules or principles in all types of situations. The theory believes that even if the result of an outcome will benefit an individual or organization, it does not determine whether the action is ethical. This theory acknowledged that actions and their outcomes are independent things and that some actions cannot be taken even if their outcomes are beneficial or morally preferable.

Norm Theory:

The theory states that certain standards of moral conduct should be followed by the entire group or organization. Therefore, there should be acceptable forms of conduct in an organization which could be documented as the employee handbooks or corporate codes of conduct. These are frameworks for how employees should behave or respond to given circumstances, and how an organization should treat its stakeholders and relate with society.

The Importance of Business Ethics on Organization Performance

Business ethics and performance are intrinsically intertwined. An organization that operates according to the set of ethics typically performs more strongly than an organization that does not operate according to ethical codes. Companies that maintain ethical codes tend to have healthier workplace environments and retain more talented employees for higher productivity. The promotion of organizational culture targets to increase engagement leading to productivity, innovation, performance, profitability, and thus customer satisfaction guiding the institutions towards organizational success.[19]Business ethics attract investors and keep the company's share price high, protecting the business from takeover. There isa number of things people take into consideration when thinking of investing in a particular stock. The image of the company which is gained with strict adherence to business ethics will improve the profit margin which is the major goal to determine the performance of an organization.

A business that behaves in an ethical way as a member of the community will often find that the community offers its support in return, which can also be invaluable to the success of the organization. This may be achieved through corporate social responsibility or simply behaving honestly in dealings with their stakeholders.An organization that builds positive business ethics into its corporate culture creates a framework to keep the dialogue open and responsive to ethical considerations even as the business evolves and takes on new challenges. Business ethics gives a sense of security and opportunity for development. It must be emphasized that business ethics is essential in every business situation, with no exceptions.[20]

Summarily, the critical review of this study revealed that a successful organization cannot do without incorporating certain business ethics into its corporate governance. Organizations have the intrinsic responsibility to promote ethical characters as mentioned and demonstrate appropriate conduct through personal actions and interpersonal relationships, and the promotion of such conduct to followers through two-way communication, reinforcement, and decision-making.[21]The rudiments of business ethics as related to each organization will be more meaningful if well stated in the codes of ethics, realistic and well communicated to employees for proper enforcement.

In ensuring adequate implementation of ethical behaviors, organizations can embark on several methods for ethical screening. Tests seem to be reasonably valid with low costs and short time periods involved in administration.[22] Employees should,therefore, be encouraged to contribute to the decisions for proper implementation. Stakeholders will not have problems accepting the ethical procedures of organizations if they are effectively developed and disseminated in an open.

Corporate social responsibility is more than just a business trend or fad. Organizations that want to stay relevant to new generations and who want to increase their performance will benefit from embracing corporate social responsibility. Corporate social responsibility is a core part of the corporate strategies of many companies in most advanced economies[23] and it is a practice that should be blended into the activities of organizations for greater performance.

Conclusion

Setting a system of balanced ethical principles in business is the foundation for the business system to reach its optimum development and achieve its goals. The aim of a business is not just to make a profit but to be successful with tangible and proven performances, organizations must be ethical in dealings with their employees, customers, investors, the community, and society. The increased and continuous downfall of principles and values has given rise to the urgent need for ethics to be incorporated into business practice.

Ethics deals with the development of corporate character where individuals and communities in whom the organizations function, may flourish.[24] Through this process, all stakeholders benefit. Employees have a sense of pride and belonging because they are satisfied to be working for an ethical organization, the community is positive because an ethical organization is one that provides to its community and the organization because satisfied and motivated employees are efficient and productive while a gratified and fulfilled community is comprised of loyal consumers.[25]

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