AUTHOR DETAILS

Name: JACINTA MWENDE MAWEU

Affiliation: Department of Philosophy, University of Nairobi, Kenya

Email: mwendejacinta@yahoo.co.nz, jacinta.mwende@uonbi.ac.ke

Contact: +254 722 885 439

Building Synergies Between Ethical And Business Values For Better Institutional Performance In Africa

Abstract

Businesses and corporate organizations globally are struggling to stay afloat amidst the biting effects of the economic crisis. The global economic crisis, increasing competition and the increasing cases of corporate and business scandals have re-awakened the need for value guided strategic thinking in both the public and corporate world. Building synergies is one of the most common ways in which corporate, business and even public institutions are strategically positioning themselves either to beat competition or to remain economically viable in the market. This conceptual paper explores the economic cost of ethical failures in business and corporate organizations in order to make a case for the importance of building synergies between ethical and business values to guide organizational behaviour and to increase organizational performance. The paper explains why 'ethical business is good business' and why ethical values and business values are not mutually exclusive. Using the market model and public interest model, the paper shows why it is in the best interest of any organization to have internal and external ethical controls to ensure the successful building of synergies at the organizational and inter organizational level. The paper therefore proposes an 'enlightened self-interest approach' as a measure to synergize business and ethical values for optimal performance. The main argument that the paper presents is that most organizational failures in most African countries are not as a result of poor business/organizational models or a misjudgment of the market, but rather due to some serious ethical failures.

KEY WORDS: *Corporate Governance, Business Ethics, Performance, Africa*

Introduction

Over the last couple of decades, the business and corporate world has been rocked by numerous ethical dilemmas ranging form corruption, monopolistic price controls, fraudulent business activities and corporate scandals in both the developed and developing world. This has re- awakened the need to reconsider the value of values in business. Most of these scandals can be attributed to ethical failures either at the employee, management and/or institutional level. And these ethical failures are not without economic cost for instance putting the company's reputation at stake, draining investor and public confidence, reduced share prices, loss of jobs and revenue. In extreme cases ethical failures can literally bring down a company no matter how big it may be.

Traditionally institutions use Codes of Conduct to instill and to promote ethical behavior among their employees. Institutional ethical codes of conduct act as the ultimate nucleus of values around which all institution's business revolves (de Garray, 1995). The downside to this approach of instilling ethical behavior is that employees at best regard most codes as threats or warnings since they tend to focus on the avoidance of wrongdoing. Institutional codes of conduct are generally framed from a defensive position and are designed to protect the organization from employees (Arjoon, 2000).
Therefore although this paper does not call for the scrapping of institutional codes of conduct as the basis for instilling ethical behaviour, we make the observation that such an approach is minimalist and only encourages lip (code?) service adherence to ethical values. Over and above the codes of conduct, institutions should have internal controls and a performance ethic that motivate people to act ethically out of enlightened self-interest.

The Relation of Business to Ethics

An interesting distinction is often made between business values and ethical values. Business values are regarded as instrumental, essentially directed towards profit maximization whereas ethical values are regarded as being too idealistic and narrow to have any meaningful place in business. The purpose of this paper is to correct this misconception- that ethical values and business values should be treated as mutually exclusive and to advocate for a more integrated approach of synergizing business and ethical values. The paper argues that there are grave economic costs of adopting such a

separatist approach to business and therefore it is prudent to adopt ethical strategic thinking in business organizations to increase optimal financial performance.
The paper contents that the business of business is ethical business and that every business decision implicitly or explicitly has an ethical element although it may not always be apparent. Loosely put, ethics in business means making the right choices and decisions. And although these decisions and choices may be dictated by competing demands and conflicting goals, business values cannot totally be divorced from the conceptions of "good business behaviour" (Sen, 1997). Those who view business behaviour purely in terms of raw profit maximization miss the point because business activities and decisions contain both business and ethical considerations. Business activity is human activity and it can be evaluated from the ethical point of view just like any other human activity (De George, 1999).

Business and corporate organizations form an integral part of contemporary society. By themselves, businesses and corporations are amoral and its only by assessing the activities of such organizations performed by different individuals in these organizations can we judge them as being either immoral or moral. Ethics deals with human beings because its only human beings who have the freedom to choose from alternative actions. Ethics and morality consists of rules that govern human behaviour and specifies that certain actions are right and others are wrong. Because business activities are human activities, they can therefore be evaluated as being either as wrong or right using the societal mores, norms and values. This is not to say that these human activities are not influenced by the organization's policies, culture and values. Corporate internal controls in the form the corporate culture, values, policies, norms and structure do have an enormous influence on the choices and behaviours of corporate employees (Velasquez, 2002:18). But since at the end of the day these corporate entities do not make the decisions and choices for the individual employee, it is the individual we can hold accountable for any choice or decision made.

Any decision whether at the individual, group or organizational level that relates to others has an ethical dimension. Ethics govern all voluntary human activities that affect others, and because business activity is a voluntary human activity it ought to be governed by ethics (Velasquez, 2002).

As a social enterprise, the mandate and limits of any business organization is therefore set by the societal laws and morals. Ethics in business (business ethics) is therefore not a special form of ethics that regulates business activities in a way that other human activities and social endeavors are not regulated. Nor does it allow businesses to do what other social enterprises and individuals are not allowed to do in other areas of life (De George, 1999).

Ethics and Business incompatible?

There is an old cliché that 'the business of business is business' to imply that the business of business is neither ethics nor anything else but profits. Those who believe in this cliché argue that the sole concern of business is to maximize profits for the business owner and shareholders. Ethics is not necessary in business dealings according to this view; business and ethics are opposite terms and combining them is improper. The golden rule in business is that one should have gold to rule (Badi, 2006:37). To back up this misconception about the relationship between ethics and business, the thoughts of Adam Smith in *The Wealth of Nations* are cited as authority. One of the most cited remarks of Adam Smith who is largely regarded as the father of modern economics is the one about the butcher, the brewer and the baker. An extract from *The Wealth of Nations* reads: 'It is not from the benevolence of butcher, the brewer or the baker that we expect our dinner, but from their regard to their own interest. We address ourselves not to humanity but to their self love….'. This is cited as evidence that those who are involved in business activities are only concerned about promoting their self-interest and therefore they are not interested in the rhetoric of the dos and donts, the goods and bads that are the subject matter of ethics.

But such an argument is fallacious because promoting one's self- interest does not necessarily translate to one being selfish hence immoral. Indeed promoting one's self interest is ethically grounded in the teleological ethical theory of ethical egoism. There is therefore nothing inherently unethical in the butcher, the brewer and the baker promoting their own self-interest because this is the only way that we are assured of ‘our dinner’. The butcher, the brewer and the baker want our money and we in turn want their products. This amounts to an exchange that benefits all parties involved. In any market exchange, business transactions take place by mutual agreement for perceived mutual advantage. Through voluntary exchanges, buyers and sellers can promote their own interests only by serving the interests of others (Younkins, 1994). Therefore, in most cases, promoting other people’s interests or doing the right thing such as producing quality goods is the most effective way of promoting your self- interest (Rachels, 2002:564). Most business corporations will therefore be motivated to do the morally right thing in their own self interest for instance to protect their reputation and to win public trust, which will in turn help them to maximize profits.

The business entrepreneur is a rational profit maximizer in neoclassical economics. And just as Adam Smith observes, self-interest is the ‘invisible hand’ in any economic exchange. It is the self interested behaviour of those engaged in any economic activity that ultimately has unintended positive effect for society at large provided that the prevailing institutional framework directs self interested entrepreneurial behavior in the right direction (Davidson et al, 2007). Smith in the *Wealth of Nations,* argues that the competition for profits would advance efficiency and society would progress; the wealth of the nation would flourish and the well being of the citizens would improve. The pursuit of self interest in most cases therefore contributes not only to individual success but to the overall well being of society and the wealth of the Nation. This is not to overlook the fact that we do have illegitimate profits made from illegitimate deals through illegitimate means, but majority of profits are made legitimately.

So there is no inherent contradiction in the pursuit of profits (doing well) and doing the right thing (doing good). And therefore, although for centuries people have been suspicious about the pursuit of profits because they think that profit to one person or organization must mean a loss to another, this is mistaken fear. The pursuit of profits, which is the core business of any business, does more than just increase owners’ and shareholders wealth. The pursuit of profits in business is both necessary and moral; it is the only logical way any economic system can mobilize people to provide for others through investment. The promotion of self-interest through profit maximization is a requirement of any business venture that has to be met. Profits are the most immediate rewards for having efficiently produced something useful, profits are the lifeblood of any business corporation and without them corporations would not survive (Arjoon, 2000). Profits are also a necessary and even required evidence of efficiency and therefore it's a here and now reward to the entrepreneur for doing something profitable to other people. Therefore although profits are not the only ultimate reason for the existence of a business, Robert Mercer, chairman and CEO of Goodyear Tyre and Rubber observes, 'profits are like breathing in business. If you cant breathe, you can forget everything else you are doing because you are not going to be around much longer' (cited in Arjoon, 2000).

Although it would be to miss the point to view profits as the ultimate purpose of any corporation, it is logical to conclude that reasonable profitability is necessary to continue in business and to reach the corporation's full potential. 'Profits can be seen in much the same way we see food in our personal life. We probably do not define food or eating as the purpose of our lives, but we recognize that it is essential to maintain our health and strength so that we can realize our purpose (Naughton et al, 1996). It is without doubt that some profits are acquired from the worst expressions of greed, deception, fraud, and lawlessness, but it is equally true that most profits are earned in mutual service where both parties to the transaction gain. Deontologically, such 'lawless' pursuit of profits would be intrinsically bad and should be condemned no matter how much we would want to justify them teleologically.

Making profits per se does not raise any ethical issues. What raises ethical issues is how individuals and corporations realize profits. When profits become the end of an organization then something is radically amiss. This is because to see business behaviour exclusively in terms of profit maximization misses out many subtleties of commercial conduct including the influence of societal conventions and mores, social interactions and the principle of 'give and take in business'. But if the profits are by hard work, innovation, excellent customer service, quality goods and services among other actions that can be regarded as "good business behaviour", then such ought to be applauded and they should actually be an example to be emulated as we seek prosperity for ourselves.

There are restraints that bind the pursuit of profits and these restraints include not only the 'feasibility constrains' that reflect the limits of what one can do, but also 'self imposed restraints' that a person chooses to obey on moral, conventional or strategic grounds (Sen, 1997:6).

We can use the two broad approaches in ethics (deontology and teleology) to justify the legitimate pursuit of profits in a market exchange as a means to an end, a good in itself, a practical measure of how to deploy resources, a reward for risk taking, technical innovation and efficiency. Deontology ethics emphasizes our duty as human beings to do the right thing, not because of the consequences, but out of good will (Velasquez, 2002). An action is therefore right or wrong because of its inherent nature, irrespective of the expected outcome. If we take the pursuit of profits at the personal or organizational level, there is nothing intrinsically wrong with it. As I have already mentioned, profits are the motivating factor for any human endeavor. Human beings are by nature utility/benefit oriented and the pursuit of profits only raises moral questions when it is thought that such pursuit seriously injure other people. So then it is the 'howness' of profit pursuit that raises moral issues not the pursuit of profits *per se*.

According to teleology ethics, the consequences of a particular action determine its rightness or wrongness (Badi, 2006). If the consequences are good, then the action is good, and vice versa. So an entrepreneur starts a business, it prospers and therefore gets profits. The entrepreneur's action then becomes a good action because it bears good consequences. Profits in such a case become a means to an end; a means to building the business and rewarding the entrepreneur, employees and serving the community better in respect to quality service delivery. Teleologically, we can therefore justify profits because they maximize the long term self interest of the individual business entrepreneur and on utilitarian basis; that they contribute to the overall well-being of the community. The free market coupled with private property ensures that the economy is producing what consumers want, that prices are at the lowest levels possible, and that resources are efficiently used. In this way, the economic utility of the society is thereby maximized (Velasquez, 2002:184). As Smith, observes, the chaotic interaction of millions of self-interested consumers and thousands of self-interested firms produces outcomes that benefit all society. The pursuit of profits is not therefore incompatible with morality or doing the right thing. In essence, when you pursue profits legitimately you are doing the right thing! According to neoclassical economics, the greatest social good occurs when individuals are free to pursue their own self-interest in economic activity (Swanson, 1995:44). This is despite criticisms waged against Smith's classical ideas on the utilitarian argument in defense of free markets. Smith's argument is criticize for assuming that the forces of supply and demand will force prices down to their lowest because of competition among many players in the market (Velasquez, 2002:186). His theory overlooks the dangers posed by monopolies, which characterize today's business world.

The evilness of the pursuit of profits has however been closely associated with capitalism as an economic system. Capitalism has been accused of promoting selfishness, exploitation and greed in the pursuit of profits. As an economic system, capitalism has been accused of corrupting individuals and contributing to most of the social evils in the society. I think that this is an unfair accusation. No economic system can make people morally good. The best that an economic system can do is to allow people to be good. And since for people to be moral/good they have to be free, capitalism more than any other economic system allows individuals to be good/moral since it grants them individual freedom. Therefore although capitalism cannot guarantee us a moral society, it is necessary for the pursuit of one. It is the individual freedom in capitalism that facilitates voluntary exchanges in the pursuit of profits, creates fair competition, and promotes innovative ideas which leads to higher standards of living and in the end the growth of the economy both nationally and globally.

In public debates, especially on economic or business activities, profit is often seen as an exercise in "greed and avarice" and therefore profit becomes synonymous with 'exploitation'. But is that so? If we are to be honest with ourselves, is there any meaningful human activity that is not consciously or unconsciously geared towards profit (benefit) and the avoidance of loss?

Starting with the most basic activities like eating, sleeping, being educated, being clothed, relaxing among others. We do all these because we stand to benefit from either of them. And to maximize the benefit of each of these activities we need not just do them, but do them well. Take for instance sleeping and eating which are so basic to human nature. To profit from the act of sleeping for instance, there are a minimum number of hours you have to sleep- no matter how relative that may be. To profit from eating, you have to eat the right amount, the right food and in the right way- again no matter how relative that may be. So then I think it would be right to say that human beings are by nature profit oriented, not for selfish reasons, but because it gives life meaning- it promotes their long term self interest. As Aristotle puts it, every human activity is geared towards some goal (benefit), with the ultimate goal being Happiness. Therefore the goal of profit maximization, which is the main activity of businesses, does not in itself make business values and ethical values incompatible.

Synergizing Business and Ethical values

Values, ethics and moral principles are essential to the success of any organization be it business or otherwise. With the numerous corporate scandals and consequent economic costs both in developed and developing world in the last few decades, there is increasing evidence that there is a positive relationship between corporate social performance (CSP) and corporate financial performance (CFP). For instance, Roman et al, (1999) in his study of 52 corporations found that 33 of these suggested a positive relationship between CSP and CFP (cited in Arjoon, 2000:159). A company's reputation is formed not only by the products it sells, but by the decisions it makes, its corporate culture and value system as part of the internal control mechanisms.

Traditionally the corpoprate values are articulated as the code of conduct or code of ethics as an internal control mechanisms and an ethical point f reference for the employees. Codes of ethics are statements of values and principles which definbe the purpopse of the company whereas code of conduct are statement or rules that stipulate what one must do or not do in a company (Badi, 2006:199). Ordinarily, codes of conduct are are stipulated as rules prohibiting certain actions with a clear detail of the penalties for the violation of these rules. The codes of conduct are therefore used as 'source of catching or controlling employess. In some cases they can even be used to harass the employees' (Badi, 2006:200). By themselves, codes of cionduct can not therefore be said to inspire employees to more worthwhile habits of behaviour to achieve excellence because they at best seen as warnings and threats by the employees (Arjoon, 2000:160).

It is for this reason that we want to propose a more integrated ethical framework than the traditional approaches like the codes of conduct which are generally prohibitive. We want to propose an ethical framework which synergizes core business values with ethical values (which are not necessarily mutually exclusive) in most cases. Business surveys (see KPMG 1999; Thomas et al, 2004; Andersen, 2000), have shed light on how managers see the market forces pushing firms in the direction of responsible corporate behaviour for the common good; the good of the business and the good of the society. And therefore to build and sustain corporate reputation entrenched enough to weather future economic costs from ethical failures, companies must adopt a new style of leadership. The new strategic leadership sholud go beyond the written ethical guiedelines outlined in the code of ethics and codes of conduct. It should be guided by enlightened self interest which is likely to motivate both the employees and the organization to do well (good business) and do good (act ethically). Concern for the maximization of profits under the enlightened self interst model will not exclude taking into account the interests of all who have a stake in the business; it might be the best way to maximize business interests at all.

Under such a framework, employees will be motivated to observe business values and ethical values not because they are afraid of the consequences of the donts outlined by the codes of conduct, but because it promotes their long term interesst as well. This approach regards the relationship between business and societry from the social contarct position advanced by classical philosophers such as John Locke. The social contarct approach implies indirect obligations of business towards society (Garriga &Mele', 2004:56).

This appraoch will regard the social responsibility of the business to the society as enshrined in the fact that businesses are deeply entrenched in the society- they wouldnot be without the society because they are in a social contract with the larger society. To survive, businesses therefore have to meet their part of the social contract deal by fulfillinf their economic role within the framework of good business as dicated by societal values in their own interest. As part of the deal, the society has expectations of business over and above legal requirements and company codes of ethics (Carrol, 1979:500) and its in the interest of the business to honour and live upto these expectations.

Businesses owe their existence, continuity and growth to the society because the society gives them legitimacy and prestige. Corporate mange,ment should theefor synergize and integrate business values, social demands and ethical values in a way that business operates in accord with enlightened self interest for the common good. Corporations have to pay more attention to business ad ethical values such as truth, transparency, justice, acountability, respect for the rights of others, social responsibility among others. Trust and transparency are now as important to corporate reputation as the quality of a company's products or services. In some cases, they even outrank product quality. Concern for all stakeholders' interests, not just shareholders', should be at the top of a corporate management’s list of considerations when making a decision.There is increasing evidence that today's consumers are looking for corporations who will deliver performance, be honest, and factor in the role of business in society. So it is in the interst of the business to observe all these.

Conclusion

This paper has outlined the reasons why there is dire need for corporations in the prevailing eonomic climate to synergize business and ethical values for better performance. The paper has explained why there is no inherent contradiction between the pursuit of profits and acting ethically. The paper proposes the adoption of a strategic enlightened self interest approach in order to do well and to do good. The paper has also outlined the major weaknesses of the traditional normative approaches used to instil ethical values in corportaions such as codes of conduct. The main argument that the paper has advanced is that good busineess is ethical business and for corporations to honour their part of the social contract deal, they have to go beyond the traditional codes of conduct. They have to be motivated to do the right thing not in fear of repurcussions but because it is in their long term interest.

References

Arjoon, S. 2000. Virtue Theory as a Dynamic Theory of Business in the *Journal of Business Ethics*, Vol. 28: 159-178

Badi, R.V &Badi, N.v. 2006. Business Ethics. Delhi, Vrinda Publications

Carrol, A. 1979. A Three Dimensional Conceptual Model of Corporate Performance in *The Academy of Management Review*, Vol. 4: 497-505

Davidson, P. &Mescht, H. 2007. How enterpreneurs deal with Ethical Challenges-Applying the Synergy Star Technigue in *Journal of Business Ethics* Vol. 71:411- 423

Garriga, E. &Mele D. 2004. Corporate Social Responsibility Theories: Mapping the Territory in *Journal of Business Ethics*, Vol. 53: 51-57

George, R. 1999. *Business Ethics*. New Jersey: Prentice Hall

Lin, C. &Wei, Y. 2006. The Role of Business Ethics in Merger and Acquisitions Success: An Empiricl Study in *Journal of Business Ethics*, vol 69: 95-109

Pratley, P. 2003. *The Essence of Business Ethics*. New Delhi: Prentice Hall

Sen, A. 1997. Economic, Business Prinipl es and Moral Sentiments in *Business Ethics Quartlerly*, Vol. 7: 5-15

Swanson, D. 1995. Addressing a aTheoretical Problem by Reorienting the Corporate Social Performance Model in the Academy of Management Review Vol. 21:43-64

Thomas, T. et al, 2004. Strateghic leadership of Ethical Behaviour in Business in *Academy of Management Executive* Vol. 18: 56-66

Velasquez, M. 2002. *Business Ethics: Concepts and Cases*. 5th ed. Delhi: Pearson Education Inc.