Business Ethics as Competitive Advantage for Companies under the Sustainable Development

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Introduction:

Sustainability has become a common topic of debate within business and the wider community in the past 20 years or so. Championed by some as the only path suitable to protect the natural environment while maintaining an appropriate level of financial growth, sustainability is, however, frequently challenged by beliefs that environmental regulations inhibit economic growth and competitiveness.

“Responsible competitiveness… blends forward-looking corporate strategies, innovative public policies and engaged and vibrant civil societies. It is about creating a new generation of profitable products and business processes underpinned by rules that support societies’ broader social, environmental and economic aims.” **Pascal Lamy**, Director General of the World Trade Organization.

On the light of these terms, and because all companies try always to search for new things to gain a competitive advantage, this paper tries to analyze how can companies through business ethics get a competitive advantage under the sustainable development.

I. Business and sustainability:

1.1. Sustainable development definition:

"Sustainable development is development that meets the needs of the present without compromising the ability of future generations to meet their own needs." It goes beyond the notion that pollution equates with inefficiency, which typically only elicits a response that seeks to use fewer resources and encourage waste minimization. Sustainability is a proactive change where businesses understand and measure their environmental impact, indirect and direct, at all stages of the value-chain and then, importantly seek holistically to reduce the negative consequences of their activities.

1.2. Sustainability on the rise

According to the Conference Board of Canada, sustainability is the business issue of the 21st Century (Strandberg consulting, 2009). Leading corporations, not only in Canada, but also around the world, are embracing this concept and its link to economic success and competitive advantage:

- 68% of Fortune 250 companies now publicly report on their social and environmental initiatives as well as their financial performance
- More than 90% of chief executives are doing more now than they did five years ago to incorporate environmental, social, and governance issues into their companies' strategies and operations.
- 79% of CEOs agreed that sustainability is vital to the profitability of any company, an increase from 69% the year before
- 71% of CEOs said they would sacrifice short-term profitability in exchange for long term shareholder value when implementing a sustainability program.

Global drivers of sustainability include:

- Legislation on pollution and environmental issues ;
- Investors with the spread of CSR performance indices;
- Other stakeholders particularly NGOs;
- Commercial issues of compliance and risk management and
- The need to develop competitive advantage and brand reputation.

1.3. Sustainability: A Smart Business Decision

Sustainability can bring direct benefits to a business and secure its long-term competitiveness.

Increasingly, customers want a reliable supplier with a good reputation for quality products and services. Suppliers want to sell to a customer that will return for repeat purchases and will make payments in a timely manner. The company's community wants to be confident that the business operates in a socially and environmentally responsible way. And lastly, the company's employees want to work for a company of which they are proud, and that they know values their contribution. To remain competitive, companies need to be able to adapt to these new demands from the market and the society in which they operate.

Initially viewed as a series of costs, the business case for sustainability is becoming increasingly apparent. By embracing the long-term strategic and competitive advantages of sustainability, businesses of all sizes find that they can have a significant impact, and at the same time meet - and exceed - their business objectives (Strandberg consulting, 2009).

- An 11-year study of corporations by Harvard University, which emphasized stakeholder management, found socially responsible and sustainable corporations had sales growth 4 times and employment growth 8 times that of "shareholder first" companies.

- Over a 5-year period Dow Jones Groups Sustainability Index (DJGSI) performed an average of 36.1% better than did the traditional Dow Jones Group Index (World Economic Forum, 2005). "The DJSI 2008 report, affirmed a "positive strategically significant correlation between corporate sustainability and financial performance", citing that a number of its indexes have outperformed their comparative benchmarks in relation to total returns since the launch of the respective indices. The report found that sustainability strategies had a significant impact on the cost of external financing, return on invested capital, sales growth, and the fade-rate of a firm's competitive advantage."
- A report by investment bank Goldman Sachs found that companies that are considered leaders in environmental, social and governance (ESG) policies also lead the pack in stock performance - by an average of 25%.
- Innovest Strategic Value Advisors conducted a study in March 2008 and found that their Global 100 (which represents 100 leaders from the MSCI World Index that demonstrate exceptional capacity to address their sector-specific environmental, social and governance risks and opportunities) outperformed the MSCI World Index by 7.2% (annualized). It also outperformed the Dow Jones Industrial Average by 7.5% and the Dow Jones Global Titans by 8.8%.
- An A.T. Kearny analysis revealed that during the current economic slowdown, companies that show a "true" commitment to sustainability appear to outperform their industry peers in the financial markets. In 16 of 18 industries examined, companies recognized as sustainability-focused outperformed their industry peers over both a three and six-month period, and were well protected from value erosion. Stock prices of 99 companies identified as sustainable outperformed industry averages by 15% for the six months from May to November 2008. (Sustainability companies are defined by inclusion in either the Dow Jones Sustainability Index or the Goldman Sachs SUSTAIN focus list.) This performance differential translates to an average $650 million in market capitalization per company.
- According to Doug Miller, chair of GlobeScan Inc., "our latest research shows that customers are not acting like they did in other economic downturns. Rather than softening their activism, consumers are more demanding than ever those companies maximize their societal and ecological contribution. It seems clear that only the best corporate citizens will thrive in tomorrow's marketplace".
- According to Paul Herman in Sustainable Industries Sept. 2009 issue, "companies with strong management practices in sustainability, and who embed them deeply, tend to drive more quantifiable impact and results.
- Business in the Community (BITC) in the UK contracted MORI to conduct statistical analysis using the financial data for a group of 33 companies who have participated in the BITC CR Index each year 2002 – 2007 and are listed on the London Stock Exchange. The objective of the analysis was to look for a correlation between the extent to which these companies' corporate responsibility performance (as measured by their Corporate Responsibility Index scores) and their financial performance may be linked. The performance of this group of 33 companies was compared to the FTSE All-Share and FTSE 350 groups. They found that companies consistently participating in the CR Index outperform the FTSE 350 on total shareholder return 2002 – 2007 by between 3.3% and 7.7% per year. They also found that higher levels of performance in the management and integration of environmental and social issues and associated governance factors, as measured in the CR Index, are associated with lower levels of stock price returns volatility. The research demonstrated the higher the company scored on the CR Index, and therefore the better the company manages its environmental and social impacts, the less volatile the stock price returns.

II. Companies social responsability :

2.1. views of the relationship between the firm and society

Rodriguez, Ricart and Sanchez (2002) thought that the relationship between businesses and society has been extensively treated in management literature. From the efficiency view, the social responsibility of businesses is to increase their profits with no other limits than those established by law and common decency. There are other strands of literature that consider that there is or should be a closer relationship between businesses and society. The most important of these refer to corporate social responsibility (CSR1), which basically states why corporations should be socially responsible or not; corporate social responsiveness (CSR2), the purpose of which is to describe firms' responses to social demands; corporate social performance (CSP), which started as a way to embrace the main contributions of CSR1 and CSR2 and later focused on the outcome of corporate behavior; and stakeholder theory (ST), the aim of which is to determine to whom firms are responsible and how and why companies should manage their relationships with them.

2.1.1 The dynamic view of the firm

It is well known that the purpose of all business strategies is to reveal how a business can persistently create more value. Achieving this goal largely depends on industry attractiveness and individual business positioning. A successful business position will, moreover, depend on the persistence of its supporting competitive advantages.

Business management literature has analyzed the persistence of competitive advantages mainly based on two theories: the resource-based business theory (Wernefelt, 84; Barney, 91) and the activity-based business theory (Andrews, 71; Porter, 96). In general lines, the former emphasizes the resources and capabilities generated by the business and the latter, business activities themselves. Both lines of thought have been successfully inter-related beneath the value creation umbrella in the dynamic business view theory (Ghemawat, 99) (Rodriguez et al, 2002).

2.1.2. The sustainable view of the firm

They (Rodriguez et al, 2002) said also that the sustainable view of the firm is based on the need for companies to fully accept the fact that the business world is part of the natural (Shrivastava, 94) and social (Eells and Walton, 61; Davis and Blomstrom, 66) system; this fact has two dramatic implications for the corporate world: acceptance of the scarcity of natural resources (Hart, 95) and the notion of business and society's co-responsibility related to the use and development of social resources (Eells, 60; Frederick, 87).

The sustainable view of the firm is based on four pillars (social reasons, physical reasons, ethical reasons and business reasons). All of them relate to each other and support the idea that firms should create sustainable value (that is to say, economic, social and environmental value) in the double sense of the word sustainable: in a persistent way and coherently with the principles of sustainable development. Also, the normative and instrumental approaches co-exist in them all.

Physical reasons

Up to the middle of the 20th Century, industry and trade were able to grow as if there were no natural constraints. This was possible because the global consequences of these activities on the planet were quite limited, or even negligible. The magnitude of the pollution and use of natural resources derived from industry and trade was not sufficient to represent a threat to the biosphere.

In the last few decades, the physical limits of our planet, both as a provider of resources and as a sink for waste disposal, have been well established in theories, studies or concepts such as ecosystems biodiversity, carrying capacity, the limits to growth or ecological footprint. According to a systems approach to strategy, companies must broaden the environment that they take into account, including our natural environment.

Physical reasons

Examples

Normative approach	Firms should consider this reality in order not to threaten the survival and development of present and future forms of life.
Instrumental approach	Companies should consider this reality because natural constraints are bound to be one of the most important drivers of new strategic resources and capabilities.

Social reasons

In the past, the social role of corporations was practically limited to creating employment, paying taxes and operating within legal limits. And indeed, for some scholars this is still the case. In any case, this was possible when firms' playing fields were clearly delimited and society, while entrusting the satisfaction of others' needs to governments and other institutions, did not expect much more from businesses than fair conduct as providers of employment and products.

Nowadays, society's expectations have changed. One of the primary reasons behind this change is the globalization process. This process has transferred power from society to businesses, and society is demanding a parallel increase in their social responsibilities. Also, more educated and well informed citizens tend to be more sophisticated and, as a result, more demanding with firms. As polls confirm both in first world and less developed countries, citizens are increasingly demanding that corporations play a more active social role and take this into consideration in their purchase or investment decisions. In any event, social pressures can be powerful enough to turn demands into laws. Therefore, the systems view of strategy involves a further broadening of firms' environments to include society.

Social reasons

Examples

Normative approach	Corporations should act upon both formal (legal) and informal social demands.
Instrumental approach	Social awareness will be rewarded, for instance, through work force satisfaction, better R&D management or reputation enhancement.

Ethical reasons

Companies are systems the structure of which is fundamentally based on people and the relationships between them. From an ethical point of view, to be members of a company or any kind of organization should contribute to people's overall betterment as individuals. And it is obvious that this is not possible if they have to abandon their personal values when at work. Therefore, if as citizens people are demanding an increase in companies' social obligations, they should be allowed to behave accordingly as employees. In short, the enlargement of firms' environments to include nature and society involves an increase in their ethical obligations.

Another important consideration from an ethical point of view is that the whole architecture of the western paradigm is based on the fundamental right for every human being to enjoy equal opportunities to run his or her life. However (UN Human Development Report, 01), one out of five human beings has to survive with under 1 dollar a day and has no access to potable water; more than fifty per cent of the developing world lacks the most basic sanitation; one out of every six children receives no schooling; differences between rich and poor countries keep growing; per capita income in fifty countries is lower now than ten years ago; dozens of countries suffer endemic armed conflicts; democracy and respect for human rights are still the exception. Since the fundamental right to equal opportunities is still a wish, firms must help to make it come true.

Ethical reasons	
	Examples
Normative approach	Firms have a social role and an ethical obligation to improve people's living conditions and fight the most evident types of injustice.
Instrumental approach	Firms' ethical conduct will improve their internal cohesion and help to build confidence in their relations with their internal and external stakeholders.

Business reasons:

Business reasons are a result of physical, social and ethical reasons. If we again consider the three statements above representing an instrumental approach, we can easily agree on their business lineage. However, business reasons are not purely instrumental. If companies act correctly only because it pays off, it does not work. People and society look for coherence. And this is only possible when firms' conduct is the result of profound beliefs and shared values among all their members. Therefore, business reasons are also normative. Or, better still, it is a perfect integration of the normative and instrumental approaches. This is the message at the core of this article: as we will explain in detail, considering the need to point towards a more sustainable development model deeply and positively affects the sustainability of firms' competitive advantages.

Business reasons	
Normative-instrumental approach	Considering sustainable development for the right reasons enhances the sustainability of companies' competitive advantages.

2.2. Essential components of corporate social strategy:

The modeling of the essential components of social strategy is a necessary element for characterizing such strategies. (Milton et al, 2010) gathered the studies that are discussed corporate strategy and its social responsibility as follows: Andrews (1987) points to the four components of the strategy formulation and decision, which are: (a) market opportunities; (b) corporate resources and skills; (c) values and aspirations; and (d) knowledge of obligations to society and shareholders. Thus, the author includes a variable that corresponds to concerns with society among the essential elements of the social strategies. Husted and Allen (2001) use business strategy tools and concepts to formulate new models of social strategy. Social corporate strategy therefore needs to be linked to the following four elements: (a) structure of industry (Porter, 1986); (b) internal resources of the firm (Barney, 1991); (c) corporation ideologies and values; and (d) the relationship with stakeholders. We can see a similarity between the elements these authors consider in the formulation of social strategies and the elements of corporate strategy observed by Andrews (1987). For Molteni (2006), social responsibility is part of corporate strategy, as it can help corporate management find innovative solutions based on the expectations of stakeholders. The author proposes an innovation model based on social responsibility, affirming that this can be a creative factor in the development of competition. Similarly, Zadek (2006) defines several ways or **tiers** in which competition takes place, such as, innovation and flexibility, corporate responsibility clusters as well as direct and specific business benefits. Husted and Salazar (2005) affirm that companies should put their social responsibility strategies into practise with the intention of improving both economic and social performance.

Husted and Salazar (2006) examined CSR strategies in firms with the objective of maximising both profits and social performance. Through a comparison between firms, the authors identified three types of social investment (altruistic, selfish and strategic), concluding that strategic investment creates better results for companies that try to simultaneously achieve the maximisation of both profit and social performance. This strategic investment consists of the creation of well-being and positive advantages to society and the local community. It also consists of additional benefits to the company, such as an enhanced reputation, better and more qualified labour, the differentiation of products and extraction of a premium price. The conclusions of this study point out that a company can add value and obtain competitive advantage through socially responsible activities, but it must act strategically and CSR should be connected with the corporate strategies. Actions should be seen as adding value to products in the eyes of the public and should also improve the local business environment (Porter & Kramer, 2002).

A company can use social initiatives to improve its competitive context, enhancing the quality of the business environment in the places it operates. Focusing on context allows the company to increase its potentialities in the support of social responsibility actions and contribute toward society in a structured fashion. Consequently, the company's action should be directly connected to its core business in order to maximize the potential of these actions (Porter & Kramer, 2002; Zadek, 2005, 2006). An alignment of business strategy, social responsibility action and core business activities should occur in order to achieve efficient corporate social strategies. To improve this alignment Zadek (2005) proposes analyzing the relationship between strategy, leadership and excellence through engaged learning. To represent the concept, the author suggests a triangle with the following components: At the top there is business strategy itself, how far does your company’s business strategy embrace corporate responsibility at its heart.

Porter and Kramer (2006) divide social issues into three categories: generic social issues, value chain social impact and the social dimension of competitive context. Generic social issues are important to society, but do not significantly affect company operations; nor do they affect competitiveness in the long run. Value chain social impact includes social issues that are significantly affected by company activities in the regular course of business. The social dimension of competitive context is a question of an external environment that significantly affects the direction and competitiveness of the company in the location it operates. Thus, there is a hierarchy of importance in the typology outlined by Porter and Kramer (2006), in which the social dimension of competitive context is the most important and generic social issues are the least important. However, a company should consider all of the categories; strategy should take into account all possible variables. The authors also show that what are generic social issues to one company may be social impacts in the value chain to another company or even the social dimension of competitive context, as different industries and social aspects can change as well. The fact is that social responsibility and corporate strategy have been seen separately, with social responsibility contributing to social objectives and corporate strategy contributing to economic objectives. However, they should be seen together in order to maximize both economic and social results (Husted & Allen, 2001).

2.3. Social responsibility and competitive advantage:

Social responsibility has become a strong and irreversible part of corporate actions. When managed effectively, CSR programs and projects can create significant benefits in terms of reputation and returns as well as the motivation and loyalty of employees. CSR can also contribute toward strengthening valuable partnerships. Husted and Allen (2001) state that CSR strategies can create competitive advantages if used properly, pointing out that there is a positive association between strategic social responsibility actions and competitive advantage (Milton et al, 2010).

Zadek (2005) identifies three generations of companies in relation to their responsible competitiveness. First-generation companies have a short-term, pain alleviation strategy. Second-generation companies establish strategic planning and risk management policies. Third generation companies incorporate the concept of social responsibility into their strategy. In contrast to Zadek's model, researchers in strategy consider reputation to be an internal resource that should be well managed, as it is an important differentiating aspect and potential creator of competitive advantage (Mahon, 2002). According to Mahon (2002), researchers in marketing, public relations and communication have shown corporate reputation to be a crucial element in increasing the purchase of products and services. For Logsdon and Wood (2002), reputation is a powerful concept for business, government and non-profit organisations. Executives and administrators as well as both internal and external stakeholders use reputation to evaluate and communicate their perception of business and corporations. Therefore, a good reputation can produce better results for the company. (Milton et al, 2010).

CSR should help enhance this reputation and, consequently, create competitive advantage. Ashley (2002) states that CSR is currently a source of competitive advantage that companies should employ in the quest for greater competitiveness and better results. According to Barney (1991), the creation of competitive advantage occurs through the implementation of strategies that add value and create benefits for one company when another company fails to do so. Competitive advantage can be achieved through internal resources or a group of internal resources from the firm. However, to obtain this advantage, the resources must be (1) valuable, exploring the opportunities and neutralising threats to the environment of the firm; (2) rare, not being present in any rival or potential rival company; (3) inimitable, so that others cannot imitate them; and (4) non-substitutable, meaning they do not have strategic equivalents (Barney, 1991). In the CSR field, the emphasis on internal resources is expressed in a large number of studies (Castelo Branco & Rodrigues, 2006; McWilliams & Siegel, 2001; McWilliams *et al.*, 2006; Russo & Fouts, 1997). We can start from the assumption that CSR can be considered an internal resource of the firm. Applying the definitions developed by Barney (1991), in order to create competitive advantage, CSR actions should be valuable, rare, inimitable and non-substitutable. We can also say that CSR is a group of resources, as it encompasses different dimensions that can be considered internal resources, such as corporation values, business ethics, the relationship with stakeholders (Donaldson & Preston, 1995; Freeman, 1984), social projects, corporate reputation, etc. Business managers face two other dimensions related to strategic CSR: centrality and specificity (Burke & Logsdon, 1996; Husted, 2003). Centrality is high as far as CSR actions are coupled with corporate mission. Specificity is high when CSR action imitability faces barriers that are difficult to overcome. On the other hand, centrality is low when CSR actions are far from corporation core activities and specificity is low when these actions are easily replicated. A company can create social projects connected to its core business that are valuable, rare and inimitable, thereby creating competitive advantage (Burke & Logsdon, 1996; Husted, 2003). Thus, a group of intangible resources, such as good corporate governance, efficient execution of innovative social projects and ethical management in business, can be a differentiating source of competitive advantage. However, it is important to say that there is only the creation of competitive advantage through CSR if the benefits to society really exist, as such benefits should be implicit to the philosophy of social strategies (Husted & Allen, 2001). To be a source of competitive advantage, CSR actions should create real and consistent results for society. Increased concern with external aspects as an internal value to strategic social decisions leads to reflection regarding courses of action, analyzing and anticipating the effects of the corporation behaviour while predicting the potential positive or negative consequences (Alessio, 2003). According to Zadek (2005), for companies in which CSR is rooted, it is not difficult to meet new market expectations, such as dealing with corruption, human rights, environmental management in the supply chain, etc. (Milton et al, 2010).

III. Business Ethics Program:

3.1. Planning an effective business ethics program:

For the responsible business enterprise (RBE), an effective program is one that achieves expected outcomes and integrates well into the enterprise itself. As one ethics officer in a recent study observed, "Ethics programs become truly effective to the extent that they can evolve and plug into where a company is going."1 The study concludes that a well-integrated program is one that (a) is aligned with an organization's core beliefs; (b) fits well with organization systems, policies, and practices; (c) addresses leadership priorities as well as employee expectations for ethics; (d) is used by employees at all levels to guide decision-making and action; and (e) becomes a central part of an organization's culture over time.2 There are two principal areas to consider in setting business ethics program objectives: (a) how owners and managers think the organizational culture will be affected and (b) what specific outcomes owners and managers desire from the program. Although it is difficult to measure directly the extent to which values such as trust and integrity are shared, there are a number of specific outcomes affecting the organization's culture that can be expected from such a program and that are valuable to monitor, track, and report (US. Department of commerce).

Expected program outcomes:

The primary purpose of a business ethics program is to help an enterprise address all four levels of its identity as an RBE (value added, reputation enhancement, risk management and compliance). An effective business ethics program will include a performance measurement system that captures program outcomes that reflect the goals and objectives of the enterprise.

Tracking the following nine outcomes will help determine whether a business ethics program is effective for all four levels of identity:

1. How often violations of standards, including legal requirements, can be observed (compliance and risk management levels)
2. How often responsible business conduct issues are raised at the workplace (all four levels)
3. How often employees and agents speak in terms of core beliefs and standards (all four levels)
4. How often employees and agents make decisions based on core beliefs and standards (all four levels)
5. How willing employees and agents are to seek advice on standards (all four levels)
6. How willing employees and agents are to report observed or suspected violations (compliance and risk management levels)
7. How satisfied those who reported observed or suspected violations are with management's response (compliance and risk management levels)
8. How committed employees are to the enterprise (value-added level)
9. How satisfied stakeholders are that the enterprise meets their expectations (reputation enhancement and value-added levels).

3.2. Understanding the program logic model:

All management programs have common components. Typically, a situation presents a challenge to the enterprise. Owners and managers establish goals and objectives to meet the challenge. They develop a strategy and an action plan or program to achieve those goals. The action plan or program requires input in the form of resources, contributions, and investment. These resources are used by employees and agents through activities with participants to generate output: goods, services, events, and communications. These activities and their output lead to expected program outcomes, the changes or results in people, enterprises, communities, or societies that occur over the short to long term.

A program logic model helps planners organize their thinking and encourage stakeholder engagement. It is a particularly effective means of graphically describing the elements of a business ethics program to the owners (or their representatives), senior management, employees and agents, and other stakeholders. Owners and managers can use the program logic model to stimulate dialogue and graphically portray how they envision their business ethics program working. A business ethics program logic model can be completed in four nonlinear steps:

1. **Situation:** Describe the specific problem or issue. For example, a large customer may be requiring its downstream suppliers to comply with global standards. Or, as is currently the case in the United States, regulatory authorities may require that a listed enterprise have some of the elements of a business ethics program.
2. **Outcome:** Determine what the expected program outcomes are. That is, develop the measurable indicators that owners and managers want to accomplish over time that will address the problems or issues of their situation (for example, increased issue awareness or reduced irresponsible behavior). These are the reasons they are pursuing the program.
3. **Process:** Develop the action plans that owners and managers will pursue to design and implement a business ethics program. They will want to address:

a. Input: what they need to invest in terms of resources, including management attention

b. Activities: what needs to be done to achieve the expected program outcomes, such as establishing standards, procedures, and expectations and conducting training and education.

c. Participants: the stakeholders who will be involved in each activity

d. Outputs: what will actually be produced, such as, a code of conduct, three specific policies, or 50 percent of all employees trained within the first year

4. **Contributing factors, including assumptions:** Describe the factors and assumptions that owners and managers considered in designing the business ethics program, such as the enterprise's capacity to draft a code of conduct or conduct training, the industry standards that apply, and the aspects of the organizational culture that they need to be concerned about.

3.3. Scanning the relevant context:

Whether an economy is already developed or emerging, owners and managers in that economy should scan the relevant context of their enterprise to identify the pressures it places on the enterprise, its employees, and its agents. These pressures take five forms: threats, opportunities, demands, constraints, and uncertainties.

Importance of context:

All enterprises—whether large or small—strive to meet enterprise goals and objectives in a context of legal, economic, political, environmental, sociocultural, and technological elements. Known as the *relevant context* of the enterprise, these elements bring pressures to bear on the enterprise, its employees, and its agents.

Legal element:

Government creates the legal framework in which market processes operate. As a sovereign entity, a state regulates private activities to protect or promote the general welfare of its citizens and residents. Depending on the level of state involvement in market processes, this regulation will involve, to one degree or another, public health, safety, morality, and dispute resolution.

Government regulation also defines how limited liability businesses, such as corporations, limited partnerships, and joint stock companies, are formed and what the limits of their liability are. Government regulations define the generally recognized corporate governance roles and responsibilities of directors, managers, and shareholders. Indeed, it may be that this tendency to define these roles and responsibilities in such detail is what discourages more discussion of corporate governance in terms of ethics and public policy. The very law that establishes minimum standards often comes to define the ceiling as well.

In emerging market economies, institutions are often not sufficiently independent or strong to enforce the law consistently. Indeed, law enforcement engaging in petty corruption may be a part of the problem.

Economic element

An RBE must consider the nature of its market and the amount of trust that characterizes exchange transactions. In emerging market economies, the economic system is often unstable and characterized by frequent crises, causing businesses to seek short-term profits at the expense of long-term growth. Instability and lack of trust increase the cost of each transaction as the par-ties take expensive steps to protect themselves or avoid entering into a transaction at all. Such a climate can also foster a high tolerance for activities that are unethical, such as an individual using an enterprise's assets for personal gain or paying small bribes to move a transaction along. At the same time, the cost of regulation is often so high that shadow markets emerge, making it more difficult for the RBE to compete ethically.

Consumer expectations are a key economic factor. For example, consumers may be more or less discriminating. High quality may be more or less expected. Brand names may be more or less important. Employee economic expectations are also important. For example, employment security and compensation expectations differ significantly depending on where an enterprise is located. Privacy expectations for e-mail usage on company time also differ, as do employee expectations about policies such as the hiring of relatives.

Political element

In scanning its relevant context, an RBE needs to understand the kind and degree of government influence in the market, how laws and regulations come about, who has practical access to influencing them, and the degree of government control over the economy. Government presence in the trade and investment sector often restricts trade: decreasing competition, creating opportunities for corruption, and increasing costs to business. Regulation in the form of decrees may distort the basic rules set by laws. A principal test is the extent to which consumer interests will be sacrificed to protect producers.

Environmental element

The physical world in which we live forms the widest relevant context for the business enterprise to consider and its most controversial element. The planet itself is a system of interdependent ecosystems that has evolved over millennia in a process of creation and destruction. Human beings are an integral part of this system and the first to influence consciously its evolution. An RBE is concerned with how to be a part of this process responsibly.

Socio-cultural element

In addition to organizational culture, each enterprise and its members operate within—and are products of—the broader cultures around them. Culture creates collective patterns of thinking, communicating, and acting that influence the decisions, processes, and activities of the enterprise itself. It influences the mental models that employees and agents bring to the job regarding fundamental issues of concern to managers, including the following five "dimensions of culture," developed by Geert Hofstede:

1. Social inequality, including the relationship with authority
2. Relationship between the individual and the group
3. Concepts of masculinity and femininity

4. Ways of dealing with uncertainty, relating to the control of aggression and the expression of emotions
5. Long-term versus short-term orientation.

Culture influences the decisions of owners and managers regarding a range of specific issues, including policies regarding conflict of interest, privacy, and nepotism. Culture also influences the willingness of employees to report misconduct, and the nature of the reward and punishment they will receive.

Technological element

An important consideration in planning and implementing a business ethics program is the technology available to the enterprise and its stakeholders. Particularly important are computer and telecommunications capabilities. For example, computer capability will influence how easily recordkeeping, monitoring, and auditing can be accomplished. Telecommunications capability will influence how owners and managers exercise control and relay communications.

A program logic model helps planners organize their thinking and encourage stakeholder engagement. A program logic model is a particularly effective means of graphically describing the elements of a business ethics program to the owners (or their representatives), senior management, employees and agents, and other stakeholders.

IV. Business ethics and competitive advantage:

4.1. Globalization, business ethics and competitive advantage:

Industries and companies globalize because shifts in technology, customer needs, government policy, or country infrastructure create major differences in competitive position among companies from different nations or make the advantages of a global strategy more significant. Firms are on the front line of international competition. They must increasingly compete globally.

Business ethics is a function of the business ethos within itself, the mentality of business may be a game mentality, but not all of business ethics are defined by this game like business ethos or by the business community. The nature of business is defined by existing trends in the society where business operates. Society tends to encourage or discourage particular aspects of business on the basis of its own ideals and well-being.

Sustainable competitive advantage has proved elusive for companies in the 1990s. While making enormous investments in technology, research and state–of–the art marketing, many of today’s managers seem to ignore the single most important factor in achieving and maintaining competitive advantage: People (Pfeffer, 1994).

In this regard, it is important to design an ethics program that is perceived by employees to be first and foremost about shared organizational values and about guiding employees to act on their ethical aspirations. Ethics program that guides the process of value creation within a company in a unique way is actually a critical source of competitive advantage.

When a company is implementing a value creating strategy not simultaneously being implemented by any current or potential competitors, then we can say the company has a competitive advantage. And when potential or actual competitors are unable to duplicate the benefits of this strategy, then we can say that the company has a competitive advantage that derives from business ethics.

Globalization has brought about greater involvement with ethical considerations and most importantly achieving competitive advantage through business ethics (Azmi, 2006).

4.2. “Ethics of Scandel” versus “Ethics of Strategy”

In recent years, the spotlight on corporate world has revealed corporations’ misuse of their shareholders’ and stakeholders’ trust. In the wake of numerous recent corporate scandals (ex.

Enron, WorldCom, etc.), politicians and law makers have suggested more stringent reporting and control to restore the reputation of the corporate world.

However, strict reporting, detailed codes of conduct and regulations and rules are certainly necessary but not sufficient. A firm with a good reputation is one with an image that fits the ethical values of an individual agent, and which when it is relevant, fosters good relationships (Geoghegan & Azmi, 2005).

Corporate reputation reflects the organization's strategy, culture, and values. A good corporate reputation signifies trust in a firm; it creates an emotional and intellectual bond with a number of stakeholders and acts as the source of authority and credibility for all the company's dealings "ethics of strategy".

It is increasingly important for companies to deal with ethics as a corporate strategy that, if uniquely implemented, could achieve competitive advantage for the company rather than waiting to react to possible ethical issues of importance to the targeted stakeholders. It is the necessity of being ethically proactive company rather than being ethically reactive company.

4.3. Business ethics as competitive advantage:

Business ethics should become part of corporate codes, and if implemented in the line of business as a corporate philosophy it should help achieving a competitive advantage for the firm. While short-term competitive advantage is obtained by appealing to customers in targeted external markets (in the context of globalization), long-term sustainable competitive advantage is the result of exploiting an enduring core of relevant capability differentials cultivated by responsible management of tangible and intangible internal skills and assets (Petrick & Quinn, 2001).

Business ethics of a firm has been defined as one of the invaluable intangible assets for competing. In general, intangible assets are assuming increasingly competitive significance in rapidly changing domestic and global markets. As the speed of comparable tangible assets acquisition accelerates and the pace of imitation quickens, firms that want to sustain distinctive global competitive advantages need to protect, exploit and enhance their unique intangible assets, particularly integrity (building firms of integrity is the hidden logic of business ethics).

Sustainable global competitive advantage occurs when a company implements a value-creating strategy which other companies are unable to imitate. For example, a company with superior business leadership skills in enhancing integrity capacity increases its reputation capital with multiple stakeholders and positions itself for competitive advantage relative to companies without comparable leadership performance. Companies could perceives stakeholder interdependence, demonstrate ethical awareness, and respond effectively to moral issue management put themselves in a position of a competitive advantage in comparison to other companies without those internal resources, by providing a more comprehensive list of ethics capacities (Petrick & Quinn, 2001).

International organizational leaders can and should be held accountable for enhancing the intangible strategic asset of integrity capacity in order to advance global organizational excellence.

The marketplace with globalization is becoming increasingly aware of, and increasingly discriminating against, corporations that fail to meet the criteria of ethical business operations and ethical management principles (Svensson & Wood, 2004).

Furthermore, sustaining advantage requires change. It demands that a corporation exploit, rather than ignore industry trends (one of the major trends is the demand of business ethics). It also demands that a company invest to close off the avenues along which competitors could attack (Azmi, 2006)

Business ethics as competitive advantage involves effective building of relationships with a company's stakeholders based on its integrity that maintains such relationships. Business relationships, like personal ones, are built on trust and mutual respect (White, 2006).

Successful business must treat the parties affected by the corporation's actions as constituents to be consulted rather than spectators to be ignored. Doing so was just smart business. This was a novel step in that it was among the first attempts to characterize the impact of ethical behavior on a company's financial performance.

Conclusion:

An integrity approach to business can yield strengthened competitiveness: it facilitates the delivery of quality products in an honest, reliable way. This approach can enhance work life by making the workplace more fun and challenging. It can improve relationships with stakeholders and can instill a more positive mindset that fosters creativity and innovations. The purpose of ethics is to enhance our lives and our relationships both inside and outside of the organization.

As the competitive environment with globalization could be characterized by the game metaphor rather than the war metaphor (the traditional metaphor usually used for characterizing competition), it is increasingly important to include ethics in the corporation's strategy and potentially implement it in a way that achieves a competitive advantage for the company and adds value to the stakeholders.

Last but not the least, there is another face of business ethics that could be managed also to gain a competitive advantage, which is corporate ethics. On the one hand, business ethics has an external emphasis. Business ethics considers the gap between the corporation's ethical behavior and the market place's perception of the corporation's ethics in its business operations. Corporate ethics, on the other hand, has an internal emphasis and this could be well managed toward a unique competitive advantage as anything related to people (corporate ethics through people) is very difficult to imitate and this raises the chances of achieving a sustainable competitive advantage.

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