# Business Ethics as Competitive Advantage for Companies In the Globalization Era

Rania Ahmed Azmi

Assistant Lecturer, PhD Researcher
Business Administration Dept., Faculty of Commerce,
Alexandria University

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"Companies that adhere to a strong ethics policy are likely to enjoy a long-term competitive advantage."

- *Fortune Business leaders Council Survey, Jan. 2006*

**Abstract**

Companies are dedicated to being sustainable organizations through building long-term shareholder value while being a responsible corporate citizen. It is globally believed that the only way to achieve that is to incorporate economic, social and environmental codes of conduct into business strategy. Furthermore, global expansion has brought about greater involvement with different cultures and socioeconomic systems. With this development, ethical considerations become more important. Thus, the importance of building a strong ethical culture is integral to the reputation, growth and finances of any organization. It builds a brand that attracts the best talent and creates trust among the stakeholders. Although companies are primarily business organizations run for the benefit of shareholders, they have a wide-ranging set of responsibilities to their own suppliers, customers and employees, to the communities in which they are located, and to society at large. Most corporations recognize these responsibilities and make a serious effort to fulfil them while trying to utilize their business ethics as a source of competitive advantage. This has been defined as the "hidden logic of business ethics." This research will explore the growing issue of business ethics particularly as a competitive advantage. We will also analyze business ethics as a threat to business competitiveness, when ethical failure diminishes the reputation of a company and its products, locally and globally. In certain markets companies' records of positive or negative ethical conduct determine their "licence to operate" in some markets…

## I. Introduction

Ethics is primarily a communal, collective enterprise, not a solitary one. It is the study of our web of relationships with others. When Robinson Crusoe found himself marooned and alone on a tiny pacific atoll, all things were possible. But when Friday appeared and they discovered pirates burying treasure on the beach, Crusoe was then involved in the universe of others, an ethical universe (Gini, 1996).

Companies do not operate in a vacuum but rather are plunged in a universe of relationships with multiple stakeholders. With the globalization the scenario in which companies operate has become even more complex, given the emergence of global groups of stakeholders. Furthermore, globalization has also increased the levels of competition among firms, which look for new a creative ways to create a competitive edge (Friedman, 2000).

In this context, Business Ethics[1] becomes a prerequisite for conducting any type of business, particularly in the global marketplace. Traditionally, there have been two views on the role of ethics in business. The first perspective is that the corporate executives' sole responsibility is to maximize the shareholder's value. The second view is that "ethics pays," which implies that acting in a socially responsible way towards shareholder will automatically enhance shareholder wealth (Verhezen, 2005).

There is also an argument that ethics are natural market consequence of business – customers, clients, employees all want their companies to be ethical, so it is the company's best interests to be so.

Norton Juster, as cited by Hartman (2005), stated that, "From here that looks like a bucket of water, but from an ant's point of view, it's a vast ocean; from an elephant's point of view, it's just a cool drink; and to a fish, of course, it's home."

Juster's statement is to imply, if we are to conduct an analogy, the different views of stakeholders around the company about its importance for them, but after all the company itself is the most interested one in its prosperity. Business ethics to one company could be one of the valuable intangible assets for competing in today's business world. In essence, business ethics could be viewed similarly by a company and its stakeholders if business ethics are to be competitive advantage.

The present paper presents a brief review of the existing literature on the potential/actual role of business ethics as a firm's competitive advantage. First of all, the need for a company to behave "ethically" is described in terms of a company's need to interact productively with its stakeholders. Then, the second section of the paper discusses the concept of business ethics as a firm's competitive advantage within the context of

[1] Ethics is an attempt to work out the rights and obligations we have and share with others (Gini, 1996).

globalization. Part three analyzes the need to shift from the "ethics of scandal" to the "ethics of strategy" in today's world. Part four highlights the need to examine business ethics as an advantage both in long- and short-term competitive situations. Our concluding remarks suggest a few ideas for future research

## II. 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 (Porter, 1998).

Business ethics is a function of the business ethos[2] 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

[2] Ethics is a matter of ethos, participation in a community, a practice, a way of life (Hartman, 2005)

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.

The next section of the paper will discuss how companies in today's world are trying to have their own business ethics not only as a critical requirement for competing and being trusted by the mass stakeholders, but also for achieving sustainable competitive advantage.

## III. "Ethics of Scandal" 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" (Verhezen, 2005).

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.

## IV. 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 (Porter, 1998).

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 (Boatright, 2005; 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 behaviour on a company's financial performance. As Henry Ford, Sr. once said: "For a long time people believed that the only purpose of industry is to make a profit – They are wrong. Its purpose is to serve the general welfare." (Harting, Harmeling & Venkataraman, 2006).

## V. Concluding Remarks and Future Research

A recent cartoon appeared on the Executives journal portrays a CEO coming back from a seminar, announcing: "People, this year's buzz word is "Honesty"! And his VP says "Brilliant, chief—but risky!" (Cazalot, 2005)

This cartoon implies the importance of shifting from the "ethics of scandal" to the "ethics of strategy" where the CEO and his/her VP could perceive business ethics and corporate honesty as invaluable assets that, if effectively managed, could strengthen a company's competitive advantage. Ethics is simply the proper way to conduct business and, despite what the cartoon says, a responsible business is risk-free.

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 instil 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.

The metaphor of a game sees competition in business as an exciting game, in which each competitor strives to achieve excellence, satisfy customers, and succeed as a result. The motive in this type of game is not to drive out the competition, but to work hard, play by the rules of the game, and do one's best in order to succeed (Shleifer, 2004; Trevino & Weaver, 1997).

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 behaviour 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. Future researches are needed in this particular issue of corporate ethics as sustained competitive advantage.

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