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A View of "Corporethics" as the Practice for Corporate Ethics:

Insights and Implementation Process

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Introduction

For various reasons, the new development practices are strongly influencing all aspects of business conduct. More leading companies around the world are beginning to reconsider their relationships with their stakeholders, to find a better way to represent their interests and concerns in productive activities[1]. This means a significant progress to fully incorporate companies in those developing local communities where they carry out business activities. Establishing collaborative alliances creates integrative relationships[2].

However, despite some beliefs, this practice is not only limited to reinforce CSR programs, but instead, represents a real concern for companies to incorporate most representative ethical standards to their business models. Under this approach, society's shared values get involved in the process of institutionalization of ethics, which becomes part of business strategy[3].

This new paradigm of business behavior is more receptive to social concerns, which aim to make economic growth more socially inclusive[4]. For this reason ethics institutionalization seems to be the result of a holistic building process[5], and not just a corporate policy guideline, which evolves as companies and communities interact and grow.

In this context, a more inclusive model is progressively displacing that classic corporate ethics, which influenced morality in business for years[6]. This approach, closer to society values and more representative of company's stakeholders, is part of a wider concept we call *Corporethics*[7].

This new concept of business ethics incorporates modern moral values in corporate policies, once successfully integrated and

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1 Ogliastri, E., *et. al.*, 2009, p.348.
2 Austin, J.E., *et al.*, 2000.
3 Lozano, J.M., 2000, p.191.
4 SEKN, 2010, p.421; McElhaney, K., 2009.
5 Ketola, T., 2008.
6 Svensson, G. & Wood, G., 2008.

institutionalized, strengthen the relationship between companies and society. Therefore, ethics institutionalization becomes more moderate and more flexible, allowing society members (stakeholders) to influence the company business behavior, creating a convergent relationship.

1.　Ethics in Business

In the last years ethics in business had become one of the top priority subjects for corporate policy makers. Actually, rather than just get benefits from added value of corporate image, heads companies progressively develop their business strategies more according to society values and new sustainability concerns[8]. But how these ethical standards are implemented by institutionalization and which factors influence business behaviour is still under discussion[9].

Certainly this is not a minor subject. In the same period globalization has contributed to widespread new corporate methodologies, more human and environmentally centred, helping to change old business practices in coherence with the usually called "Morality of Business". Therefore, companies commitment to society to respect ethical engagements and community values in their activities.

Of course, commitments to business conduct may largely differ across firms and countries[10], even locally. In those places with strong moral traditions ethics is "built by society" and hence adopted by corporate through institutionalization. On the other hand, under more flexible society moral values, ethical business practices are "created by companies" and then institutionalized, something we call *Corporethics*.

Corporethics is basically a process of "corporate ethical institutionalization" where firms defines and implement ethical behaviour rules to develop their business, according to stakeholders needs (society), shareholders objectives (corporate) and employees commitments (human resources). To implement successful *Corporethics* moderate institutionalization is required (Fig. 1).
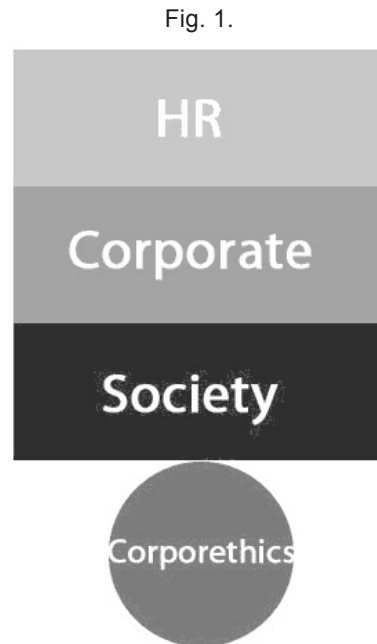
Fig. 1.

Fig.1. *Corporethics* "Balancing Model". Under moderate institutionalization, Human Resources (HR), Corporate and Society moral values influence business behaviour.

2. Ethics Institutionalization

The relationship between "moral and ethics as values" and "institutionalization" is very complex. Sometimes moral may not be strong enough at the society level to influence business behaviour, suggesting that ethics institutionalization and

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7　"The term of Corporethics" has been registered trademark by the Mexican consulting firm "Corporethics ®" (http://www.corporethics.com.mx/). We use this term in limited to the concept of academic study. We declare that we do not claim any rights including the infringement of registered trademark and economic benefits of the Mexican consulting firm "Corporethics ®".

8　Moneva, J.M., *et al.*, 2007.

9　Sims, R.R., 1991; Jose, A. & Thibodeaux, M.S., 1999.
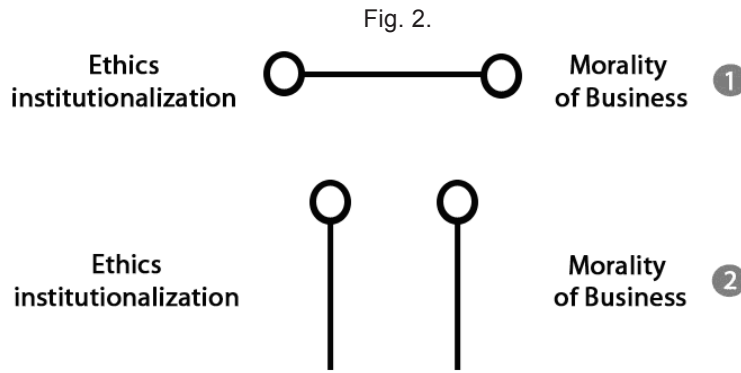
10　Hurst, N.E., 2004.

Fig. 2.

Fig.2. In business behaviour theories Ethics institutionalization and Morality of Business seem to be connected (1). However, this interaction is not always accurate. New insights and CSR outcomes in developing countries suggest an independent interaction, a convergent[11] relationship (2).

morality of business are not necessarily connected. In fact they seem to interact more in an agonist manner, that's means they move in the same direction (Fig. 2). When companies grow respecting morality of business principles, ethical rules impose themselves and develop under institutionalization.

Nevertheless ethics institutionalization depends of several matters[12]. Stakeholders by example can or cannot be take into account to define corporate behaviour. This is a key point if we considerer that individual or personal interest in corporate strategies may sometimes radically influence ethical guidelines. Consequently, companies implement ethics as a result of intricate interactions with different achievements and outcomes[13]. Every actor contributes at different levels.

Furthermore, when we focus on ethics we realize that too strong institutionalization may interfere with its realization. This particular condition inhibits voluntary development of personal ethical values. The idea of "we must follow the institutional rules, only" might born from within the employees, as a result of ethical rules embraced by the firm and not from society moral traditions.

Successful companies implements *Corporethics* under moderate institutionalization.

3. Corporate Social Responsibility (CSR)

In business behaviour CSR means "commitment" and "Social Contract". Under moderate institutionalization corporate engagements may define and specify strategy lines including CSR programs. That means employees and managers must continue to achieve CSR and Ethics by sharing ethical values, contributing to develop company policy guidelines.

But it is truth that Ethics can be improved by CSR? The answer is yes. CSR accomplishments may contribute to reinforce moral engagement of both, human resources and shareholders, regarding strategic management. Moreover, stakeholders also contribute as a third part to generate feedback between corporate and society. Consequently, CSR actions have more significant impact at the social and corporate level.

So even for strong or moderate institutionalization the "stakeholders factor" becomes relevant to build business ethics and CSR. However, we must to be careful. It is a matter of stakeholders might not

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11 The convergent relationship means they run parallel to each other or tend to come together (ethics institutionalization and morality of business are not antagonistic).
12 Jose, A. & Thibodeaux, M.S., 1999.
13 Lozano, J.M., 2000, p.191.

be necessarily a "positive influence". Sometimes managers and employees are wise than stakeholder of a part (ex: strong greed of institutional investor and shareholder). Anyhow, under good ethical guidelines all voices are represented at the decision-making stages.

Thus ethics success in corporate actions will be dependent of "ethics institutionalization" and commitment degrees throughout the organization (from shareholders to employees). Firms can be justified themselves by the legitimacy derived from ethical institutionalization, for and against some unethical stakeholders. This condition will allow ethical stakeholders to objectively assess these companies by measuring their levels of commitment. In this way, through rules between the firms and stakeholders, we can confirm the existence of "Social Contract".

Definitely strong interactions can be decisive regarding CSR and business behaviour practices. What is important is to enhance the dialogue between company and stakeholders to create moderate institutionalization conditions to improve *Corporethics*. Relaxing too strong institutionalization may help to reinforce corporate ethical guidelines and share achievements transversally (Fig. 3).
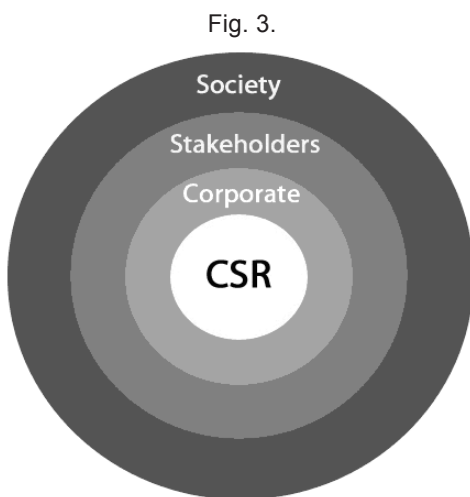
Fig. 3.

Fig.3. Strong interactions between society, stakeholders and corporate can help to share achievements transversally.

This process will be possible only under solid engagements (Fig. 4).

4. Implementation Process

When a company achieves good and solid relationships with society because of their CSR programs, the impact over ethics institutionalization in business activities is direct. Those moral values initially established by the firm changes and new business conducts develop improved by *Corporethics*. Therefore, new ethical guidelines will correspond more properly to moral standards of a wide range of stakeholders involved in their business activities.

The most important step in *Corporethics* implementation process is to identify society's most relevant needs. The main reason is when companies seek to stay in good standing with their communities they must be acquainted with their realities to devise a compromise between stakeholders and private enterprise. This action often reflects social engagement and can be regarded as a quantifiable asset at the corporate level.

Nevertheless this is not an easy task considering multifactorial elements that interact invariably in every context and productive sector. Readapt business behavior conducts based on ethical precepts and sustainability concerns should be consolidated taking into account certain elements who usually works as integrators. This approach aims to facilitate corporate guidelines making process and, at the same time, to strengthen relationship between firms and community. That's why *Corporethics* might improve organization's development throughout ethical values.

Thus, any procedure of adoption or implementation of *Corporethics* should take into consideration 8 basic principles:

① *Respect for the Local Community Values: Identify Society Ethical Values.*
② *Definition of Management Philosophy: Create a*

Fig. 4.

Process of "Corporethics": the Composition of Commitment and Engagement between Company and Society

Traditional and Social Moral Values

↓

Moral Values of Business ······ (defined by the company)

↓

Institutionalization of Ethics

············ < impact > ······
HR (such as employees)
Managements
Shareholders
    and, other Stakeholders...

Developed the New Moral Values of Business ＋ Improve the Institutionalization
(and related other system)

↓

More Sophisticated Ethical Guidelines
= (acquisition of the universality to ethical ····< related >
standards and moral values)
                More Flexible Moral Values in the World Society

① **More Sophisticated Ethical Guidelines** —— < against > ——→ Unethical Stakeholders

② (If created more bad ethical guidelines...) ←—— < against > —— Stakeholders
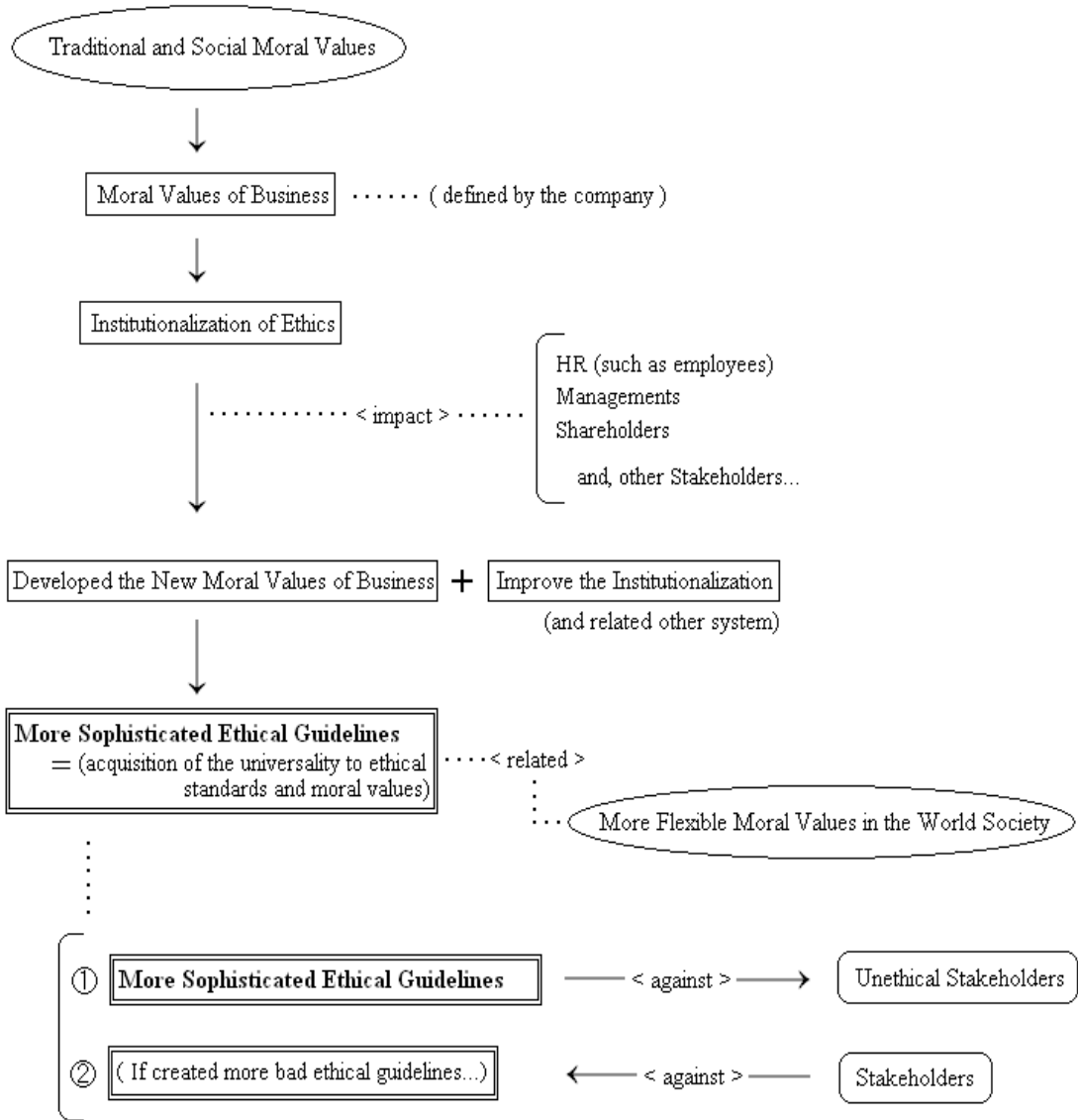
Fig.4. The process of *Corporethics*: ethical engagement between society and company.

Chart of Values for the Organizations, Including their own Ethical Values.

③ *Code of Ethics: Develop a Comprehensive Guide for Ethical Values Throughout the Organization.*

④ *Business Ethics Policy Making: Elaborate an Ethical Conduct Policy (ECP).*

⑤ *Ethical Policy Institutionalization: Integrate the ECP in CSR Programs.*

⑥ *Incorporation of "Universal Values": Incorporate Universal Values in Management Philosophy and Ethics Institutionalization.*

⑦ *Promote Social Responsibility: Promote the Adoption of Sustainability Principles and Corporethics Throughout the Supply Chain Organization.*

⑧ *Global Engagement: Engage the Organization with Global Initiatives (UN Global Compact Principles Promoted or Other Institutions).*

These "8 basic principles" are subdivided for more practical. Those are 12 implementation requirements, as the following:[14]

① *Setting Statement of Ethical Values by Managements.*

② *Enactment of the Corporate Code of Conduct or Code of Ethics. (Parent corporation is responsible for the development of systems to achieve corporate ethics to subsidiary companies in the corporate group consisting of a parent company and its subsidiaries.)*

③ *Setting and Implementation about Ethics Education, Legal Compliance Education, and their Training Systems.*

④ *Establish System for Guarantee of Improve and Immediate Response About the Ethical Consultation and Whistleblowing.*

⑤ *Placement of the Permanent Organ in charge of Corporate Ethics, and Execution by it*

about *"Investigation, Research, Planning, Implementation, Inspection and Evaluation". (Corporate ethics committee and corporate ethics department that is independent of the executive department.)*

⑥ *Appointment to the full-time Corporate Ethics Officer from Outside Directors or Inside Directors. And Placement of the Person who is Responsible for the Corporate Ethics Department from Employees. (Oversee the related business and promotion of external cooperation by them.)*

⑦ *Regular and Timely Disclosure about Corporate Ethics Related Information (ex: Internal survey results about discovered problems. Achievements about philanthropy, ethics and legal compliance) by CSR Report. And Ensuring the Validity of these Information Contents.*

⑧ *Appropriate Storage of Information and Recording for Clarification of Responsibilities and Dealing to the Problems.*

⑨ *Ensuring Regular and Timely Opportunity to Discuss Social Issues between Managements and Stakeholders (or their representatives).*

⑩ *Build and Foster the Corporate Culture and Business Practices Based on their "Values".*

⑪ *Others, Use of Various Effective Means. (ex: ethics audit, the acquisition of certification by external standards organizations.)*

⑫ *Realization of Complete Harmony with each Item of these Requirements and All Measures on Management Administration.*

According to these principles *Corporethics* might play an important role as a sustainability support tool in the future.

Conclusion

Certainly, under the new business global frameworks, the relationship between companies

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14 First Coming: Yusuke Yamashita, "*Institutional Requirements of Business Ethical Practice*", The Economic Review of Komazawa University, Vol.42, No.2, pp. 59 − 60. （初出：山下裕介「企業倫理実践における制度化の要件」駒澤大学経済学会『経済学論集』第 42 巻第 2 号、2010 年 12 月、59 − 60 ページ）。

and their stakeholders is becoming more concrete, and the rising public interest in ethics is broadly known[15]. In many corners of the world the trend in ethical business strategies suggests that a company should not focus only in profit-making. This means an organization, not just private or public companies, must produce social and economic value from ethical behavior, integrating those community moral values into is business model[16].

Hence the acceptance of moral values by companies is not limited to corporate image or CSR programs, quite the contrary, it responds to social value concerns and quality of life improvement through economic growth. This approach, much more in line with the criteria of sustainable development[17], is steadily changing the way companies do business. In fact, ethic seems to prompt the design of productive actions that increase life standards, involving more people each time.

Naturally, this process requires a good environmental and social understanding. To succeed it is always necessary to consider the moral values of every local context. The reason is moral commitments may differ according to circumstances or "scenarios" where institutionalization depends on how strong are local traditions to integrate in corporate policies[18]. In places where society develops under strong moral standards companies build their policies according to those local values, whereas in more relaxed societies ethical behavior is nearly created by the company. In each case, the firms' embrace the local values and incorporates them into their ethical guidelines.

This process of institutionalizing ethics in the corporate structure is called *Corporethics*. We have named this term as "*Corporethics*". Under

Corporethics companies define and implement guidelines for ethical behavior according to stakeholders concerns. This approach allows the company, shareholders and social actors, to create a balancing representative model, which clearly influences the success of productive activities. The reason is a strong relationship between the company and the community enhances a constructive feedback.

However, the institutionalization of ethics depends on many factors[19]. If society moral values are taken into account to build robust ethical guidelines, most of its representative stakeholders should be represented. This means a balance between collective and personal or individual interests, who often influence ethical guidelines. Under corporate moderate institutionalization, *Corporethics* integrates actors at all levels, allowing objective moral values be faithfully represented.

In the other hand, embedded ethical principles can also influence the objectives of CSR programs[20]. Shared ethical standards means personal relations are represented in the company policies. This improves CSR strategy, as its social or environmental impact is more significant at the corporate level. In this case company objectives are transversally shared and traditional ethical values of locals, are respected.

The idea of improving business practices is crucial. If the dialogue between the company and its stakeholders may moderate institutionalization, the right conditions to improve *Corporethics* could be advantageous. Likewise, the incorporation of ethical values is achieved transversely, helping to design inclusive behavior guides and better relationships across stakeholders.

The benefits of CSR activities can also

15 Andrews, K.R., 1989.
16 Ketola, T., 2008.
17 Steurer, *et. al*., 2005.
18 Hurst, N.E., 2004.
19 Sims, R.R., 1991; Lozano, J.M, 2000, p.191.
20 Lockett, A., *et al*., 2006.

help improve the process of *Corporethics* implementation. When companies are able to build strong relationships with communities they develop an ethical business conduct that properly correspond to the moral values of both, share and stakeholders. Consequently, the outcomes are more significant for the firm and CSR becomes the tool to measure business activities and identify their impact in the communities where they carry out productive activities.

　　Thus, moral values identification of local communities and its incorporation as part of the business strategy, reinforce the relationship between the company and its stakeholders. *Corporethics* facilitates the process of creating effective corporate guidelines that integrate multifactorial elements (moral values) and sustainability practices in business activities. Part of the need to moderate the institutionalization is to facilitate the participation of all stakeholders surrounding the activities of the company. Therefore, *Corporethics* could enhance organizations development through a process of ethical values identification, adapted to each context and integrate them to business strategy.

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