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Impact of Culture on Business Ethics: a Literature Review

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January 2021
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Introduction to Business Ethics

Ethics relates to "right" or "wrong" in people's conduct. Weiss (2014) defines ethics to involve applying moral judgment in selecting outcomes that do not cause harm to people and having the ability to distinguish good from bad conduct. Graham (2013) describe ethics as guidelines and standards which guides decisions during different circumstances.

The application of ethics in business involves ethical issues in decision making in the business environment. Business ethics deals with what is "good" or "bad" guiding behavior in business practices. It involves the frameworks, values, and principles for creating ethical awareness in the organization. According to Kolb (2018) ethical issues in business puts most importance upon organization's moral duty towards the society above profitability of the company.

In this current business environment businesses do not have a choice on their moral obligation to the society and businesses ought to conduct themselves in an ethical manner when relating to the society and environment around them (Brimmer, 2007). Business ethics is critical in today's business environment and there has been increasing demand for scrutiny and transparency from various stakeholders. Ethics in business matters because environmental, social and governance issues have been given much attention and are a growing phenomenon concerning business organizations in recent years. Past corporate scandals have highlighted the importance of business to operate in an ethical manner and to adopt ethical standards (Boda & Zsolnai, 2016). Businesses that do not embrace ethical practices are exposed to higher risks e.g., litigations claim, consumer boycotts on their products, fines, and penalties etc. Nelson *et. al*. (2008) describes the expense that businesses can incur as a result of lack of moral conduct within the organization, these comprising of operating, litigation, advertising, and promotion expenses. It is important for businesses to operate sustainably and to incorporate environment, social and governance, ESG factors in the business decisions.

A business that operates in an ethical way can increase profitability and strengthen its relationship with internal and external stakeholders. Studies have proven the effect of organizational moral conduct and governance issues on profitability of the firm (Jin, *et al.*, 2013). Managers have recognized that by embedding ethics into businesses, they can achieve a competitive advantage and encourage a sustainable development of the business (Mihai & Alina, 2013).

For a business to operate ethically in its operations it should consider not only the economic objectives but also its social obligations to the society and environment in which it operates.

Enginoğlu & Arikan (2016) asserts that organizational culture should represent ethical codes that consider not only short-term financial gains but also long-term well-being of the business including the society and the environment in general. Businesses are shifting from purely profit maximization focus and moving towards a triple bottom line approach (Elkington, 1997) which involves people, planet, and profit. Businesses contributions are crucial when it comes to attaining the Sustainable Development Goals (SDGs), and therefore need to adopt environment, social and governance (ESG factors) into their business models and strategies. Kaptein (2008) created the Corporate Ethical Virtue (CEV) model and suggested eight dimensions for ethical culture which include "clarity, congruence of management, congruence of supervisors, feasibility, supportability, transparency, discussabilty, and sanctionability."

Ethical Theories

Three general theories of ethics that exist are virtue, consequentialism, and deontology ethics (Kaptein & Wempe, 2002). Virtue Ethics focuses on the person characteristics and not the action or the consequences. Virtue ethics focuses on the characteristics of the individual as they have an influence on their behavior when faced with challenging circumstances (Kaptein & Wempe, 2002). Virtue ethics theory is linked to Aristotle (ancient Greek) which is an element relating to Aristotle viewpoint concerning the "good" (Aristotle, n.d.).

Consequentialism theory an ethical act is defined by the consequence or outcome that arises because of the act. According to Consequentialist ethics, outcomes justify the means, and the actions are judged based on outcome and results. Utilitarianism theory maintains that an act is determined to be moral based on the outcome and its consequences (Kaptein & Wempe, 2002). Utilitarianism focuses on the outcome that arises because of the action and therefore consequences and outcomes define if the act is good and bad. The author of utilitarianism is thought to be Jeremy Bentham (1748-1832) and his argument for "greatest happiness for the greatest number" as a basis to determine consequences of an act. Consequentialist differs from virtual ethics as according to consequentialism theory; the personal characteristics of people do not influence their actions. The emphasis is on an action's outcomes and not the characteristics of the person or individual traits. Critics of utilitarianism included Thomas Hodgskin (1787–1869), Taylor Coleridge (1772–1834), where some criticism was on the basis that it was mechanical and impractical (LibreTexts libraries, 2020). The critique of Bentham by John Stuart Mill made him a key proponent of utilitarianism. He advanced the previous work of Bentham to incorporate human being rights and introduced the "harm principle".

Deontological ethics theory also referred to as duty ethics proposes that for an act to be considered right, one must act out of duty. Deontological theory emphasizes that duty and obligation is of significance as opposed to consequences and outcomes. Deontology theory suggests that actions are considered moral based on a clear set of rules rather than

outcome or consequence. Immanuel Kant (1724– 1804) is considered as the key proponent of deontological theory. According to Immanuel Kant system of ethics, the greatest emphasis is placed on duty and obligation for the act to be considered moral. His emphasis is upon the intentions and acting out of goodwill to other people. As opposed to Bentham and Mill, his emphasis is on intentions and duty of the individual and not the consequences or outcomes resulting out of an act. Deontological ethics overcomes most of the challenges in consequentialism theory including challenges that consequentialism does not consider past perspectives or take into account matters on fairness (Kaptein & Wempe, 2002). Deontology is a powerful approach to ethics however the main weakness to the theory is the concern that the theory results in inflexibility and use of strict regulations (Kaptein & Wempe, 2002).

Influence of Culture on Business Ethics

The organization's culture includes beliefs or values shared in the organization and defines the way to behave and expectations within an organization.

"Culture is always a collective phenomenon because it is at least partly shared with people who live or lived within the same social environment, which is where it was learned. Culture consists of the unwritten rules of the social game. It is the collective programming of the mind that distinguishes the members of one group or category of people from others. Culture is learned, not innate. It derives from one's social environment rather than from one's genes. Culture should be distinguished from human nature on one side and from an individual's personality…." (Hofstede, *et al.*, 2005).

Researchers have attempted to determine which factors have an effect on ethical conduct within an organization. Allmon *et. al.* (2000) examined personality and demographics; Sankaran & Bui (2003) studied competitiveness, personality type, age, gender, and student major; Glover *et. al.* (2002) examined gender influence in ethical judgment. However, cultural effect on ethical behaviour appears that it has not yet been fully clarified (Isac & Remes, 2017).

Culture involves the values, beliefs and norms that influence ideas and conduct of individuals within an enterprise. Corporate culture represents beliefs, values, and conduct principles which are distinctive for every organization and it signifies the behavior of individuals in an organization (Hitka, *et al.*, 2015).

It is important for leaders to establish and communicate shared values that promote and support ethical behavior to all employees in the business. In ethical cultures, there ought to be common values that are communicated to everyone in the organization. Llopis *et. al.* (2007) argue that senior management are responsible for ethical issues in the organization and that the senior management have to be the beginning point so that the other people in the organization have ethical guidelines to emulate. Similarly, Graham (2013) concurred with the fact that senior management have a key part to play in establishing

the organization's culture and they are essential because they serve as examples to the rest of the workers and they impact on the conduct and culture that enhances the performance of the company. Given that ethical behaviour of those in leading executive positions appears to have a crucial role, the relationship between senior management ethical governance conduct, the company's ethical culture and the consequences requires further investigation (Riivari, *et al*., 2012). According to (Ardichvili & Jondle, 2009) scholars need to explore further on the connections and relationship between ethical culture structure with several intervening factors and effecting variables. They suggest that the influence of leadership on ethical cultures in an organization should be further researched on.

Culture has a great influence on conduct of people in the company above other factors (Schneider, 2000). Organization culture can play a role in hindering ethics in business because it guides and influences behavior of people within the organization. A corporate culture that does not promote compliance to business ethics will sabotage organizations efforts towards ethical practices. The corporate culture within the firm may be the key factor to discourage unethical behaviour. Forming and maintaining a solid culture of ethical behaviour is key to forming an enterprise which encourages individuals towards forming ethical judgments and everyday ethical conduct within an organization (Čmelikova, 2017).

Organizations will take advantage of chances to form the future by shaping culture with institutionalization of moral principles

and establishing a culture founded on values in the company (Brimmer, 2007). Ethics is a fundamental part of an organization's culture (Segon & Booth, 2013). Business should adopt a code of ethics for their operations and management should ensure that corporate cultures in the organization aligns and supports the business objectives.

The organizational culture can be considered as the essential component in institutionalizing ethics in the company, it is a key pillar to business ethics. In fact, Ampofo *et. al.* (2011) study suggested substantial link between ethical culture in the company and ethical conduct. Past researchers have studied the cultural influence on ethical behaviour (Graham, 2013; Saunders & Lockridge, 2010; Sankaran & Bui, 2003). Research results have showed that culture can have a big influence on business ethics (Trobez, *et al*., 2017). Argument by Ardichvili & Jondle (2009) suggest that for organization to create ethical business cultures, they must emphasize on culture transformation targeted to formation of a company's culture that is beneficial in achieving suitable ethical conduct.

As Chandler (1962) explained that structure follows strategy and that the structures should support the strategy of the organization, the same can be said about organizational culture. Cultures has an impact on strategy and operations of the firm. The right culture will support positive business ethics implementation in the organization. Establishing ethical conduct in a business involves thoroughly evaluating every part relating to a company's culture and supporting

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the organizational systems and structures in order to sustain ethical conduct and prevent unethical conduct (Segon & Booth, 2013).

Graham (2013) recommend that developing and establishing an organizational culture that emphasizes on ethics can enhance the manner in which people in the organization evaluate their ethical behaviors and integrate ethics in the choices they make. Similarly, Chadegani & Jari (2016) proposed a framework for ethical culture and suggested that organization's ethical culture includes two key elements which include supporting ethical behaviour and hindering unethical behaviour with three subordinate dimensions which are "policies, practices, and norms."

Although the subject of the relationship between culture and ethics is covered on past research, it seems that it has not yet been fully clarified (Isac & Remes, 2017). In fact, (İbrahimoğlu, et al., 2014) analysis on the connection of culture and ethical perception indicates that despite the fact that culture is an important influence on the ethical perception, alone it isn't sufficient in describing causes of variation in conduct shown under the same situations, individualistic characteristics such as age, sex, religion, have an influence on ethical perceptions and attitudes. In this regard (Isac & Remes, 2017) research suggested further studies need to explore the impact of additional cultural factors on the assessment of ethics in the organization.

Acknowledging the crucial part that culture has in defining business conduct, a number of researchers have emphasized on the need for further studies focusing on influence of culture on company's conduct and actions. In this regard, Scholtens & Dam (2007) argue that there lacks sufficient test on past research framework and therefore the relationship between culture and ethical behaviour in the organization is not clearly defined. He also identified the lack of a strong theory on the connection of ethics with culture and discussed the challenge of developing a theory that would illustrate the relation between ethics and culture.

Trobez *et. al.* (2017) performed a research on influence of culture on busines ethics by interviewing eight managers from Slovenia and Italy working throughout the world. The research results showed that culture can have a big influence on business ethics. However, the research findings were based on qualitative approach and he proposed quantitative research e.g., longitudinal to capture the causality of proposed link of culture and business ethics. Similarly, Thomson *et. al.* (2007) concurred that there is need to apply empirical studies in identifying the manner in which culture influences ideas, motives, emotion, and the way to behave.

Isac & Remes (2017) examined the effect of culture in describing ethical concerns and problems in businesses. This research analyzed business ethics in North America (including USA, Mexico, and Canada), East and Southeast Asia (including Japan), Europe and Latin America. His study shows that ethical guidelines which control firms operating in a certain culture might not be compatible to environments, standards, and norms of different

businesses. Hence it brings out the complexity of organizational culture as different cultures vary from one country to another. This can result into difficulties to international businesses that do business with contractors, consumers, and business rivals who come from very diverse cultures and hence the challenge of universal applicability of ethics. (Hofstede, *et al.*, 2005) "*dimensions of national cultural including power distance, uncertainty avoidance, Individualism versus Collectivism, Masculinity versus Femininity, and Long-term versus short-term orientation*" provide common ground for comparison and increasing understanding of cultural differences across countries. Ardichvili & Jondle (2009) suggested when considering an international corporate entity, the link between the organization's and country's culture should be examined further.

Scholtens & Dam (2007) analyze ethical guidelines of companies operating in industrial nations to determine if culture is a component that has a major part in describing national disparities. This study employed a dataset on ethical guidelines of nearly 2,700 corporations in 24 nations. The study was to examine the way culture is related to ethical behavior in various nations and used the Hofstede (1980, 1991) information to determine if and how culture could be relevant in this regard. This research findings demonstrated the substantial disparities in the ethical guidelines of businesses with their headquarters in various nations. Thus, this study indicates that businesses need to be conscious of the disparities in business ethics in various nations and business sectors.

Conclusion

Business ethics is critical in today's business environment and there has been increasing demand for scrutiny and transparency from various stakeholders. Ethical issues have been a challenge to business in recent years (Boda & Zsolnai, 2016). There has been a growing focus on Environment, Social and Governance (ESG) factors towards business. A business that operates in an ethical way can increase profitability and strengthen its relationship with internal and external stakeholders. organizational culture should represent ethical codes that consider not only short-term financial gains but also long-term well-being of the business including the society and the environment in general (Enginoğlu & Arikan, 2016). Corporate culture is a key element in promoting ethical business practices (Chadegani & Jari, 2016). Corporate culture drives ethical behavior of people in the organization. Ethics is a fundamental part of an organization's culture (Segon & Booth, 2013). The organizational culture can be considered as the essential component in institutionalizing ethics in the company and it is a key pillar to business ethics.

The current studies was not able to generalize the complicated operations of business environment and thus further studies are needed so as to know more comprehensively the influence of corporate culture on business ethics especially in multinationals context (Isac & Remes, 2017). Concerning the gaps identified from the literature, the knowledge gaps reveal that the relationship between culture and ethics is covered in past research,

however, it seems that it has not yet been fully clarified (Isac & Remes, 2017). The role of leadership in influencing ethical culture is one of the under-researched areas (Ardichvili & Jondle, 2009; Riivari, et al., 2012). There is also a broad possibility for studies in relation to International Business and multinational corporations and future studies can investigate comparisons between countries with diverse cultural backgrounds (Andrade, *et al.,* 2017; Ardichvili & Jondle, 2009). The empirical gaps reveal that the impact of culture on business ethics has not been sufficiently empirically tested and there is need to employ empirical studies to comprehend the link between culture and ethics (Thomson , et al., 2007; Trobez, et al., 2017). The contribution of this paper is that it aims at expanding the theoretical discussion about cultural influence on business ethics. Therefore, this paper includes useful suggestions to academicians and managers in the organization and covers areas for possible further study.

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