Role of Organizational Ethics in Sustainable Development: A Conceptual Framework

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Abstract

The focus of organizations worldwide has changed from greater productivity and profit maximization to sustainable development. Those organizations that focus on profit-only often make short-term decisions without concern for long-run sustainable benefits. The concept of organizational ethics has been widely discussed as it provides the means to long-term business success. This paper considers the basis of organizational ethics as an integration of ethical climate and culture in organizations that has an important impact on ethical decision making and outcome, which in turn could lead to sustainable development. The challenge of businesses is to remain ethical to stakeholders under uncertainty conditions. They are expected to serve sustainable development not only for the benefits of themselves, but also the interests of others in society.

Keywords: organizational ethics; ethical climate; ethical culture; sustainable development.

1. Introduction

According to rapid technological and economic changes, there is increasing global intense competition among firms. Many organizations put a lot of effort to gain competitive advantages over other competitors [1]. In order to achieve business success, they adopt business strategies (e.g. maintaining customer relationships [2], manufacturing differentiated products, and using cost leadership strategy [3]). Normally, the main goal of businesses is to maximize profit for themselves [4]. Thus, various managerial tools have been used to improve organizational profitability [5]. However, companies’ focus of the short-term profit maximization may lead to corporate debacles such as Enron and WorldCom. Their financial scandals were caused by unethical decisions and irresponsible behaviors [6]. These scandals damaged credibility and trust of accounting firms [7]. As people have perceived negative image of firms, it is not easy to resolve the credibility crisis of such firms. It will be better for all businesses if they proactively pay attention to preventing credibility crisis. They may need appropriate tools (e.g. the ethical standards of firms) to be used to ensure long-term credibility.

It is quite difficult for businesses to remain successful for long run (i.e. sustainable success) [8]. Those organizations who have adopted short-term cost savings strategy might downplay their performance of environmental and social responsibility. As a result, their long-term business growth may decline. A global trend towards business operations is more focus on sustainability that is involved not only in environmental issues, but also social and ethical issues [9]. They must well aware of the sustainability of their businesses, communities, and regions. On one hand, businesses can affect the environments in which they operate. On the other hand, businesses are affected by the surrounding systems [10]. From an organizational ethics perspective, businesses are expected to be responsible to serve and protect their stakeholders as well as the community as a whole. This seems like businesses can play a significant role to support the mission of sustainable development of the country. Business sector is the key actor whose business’ strategies should be made to respond to the current phenomena of unsustainable development (e.g. the effects of increased greenhouse gas). Hence, the full participation of businesses in reducing their emissions is required.

The term “sustainable development” refers to “development that meets the needs of present without compromising the ability of future generations to meet their own needs” [11]. At organizational level, corporate ethical practices are supposed to respond to the needs of both present and future generations. Therefore, companies should operate based on principles of ethics that provide practical knowledge or guidelines for doing the right things [12]. Companies could have multiple stakeholders (e.g.
shareholders, employees, suppliers, customers, and others who can be affected by the firm’s activities) whose interests need to be protected to achieve sustainable success [33]. In doing so, many companies have established sustainable development programs (e.g. AccountAbility 1000 (AA 1000), Social Accountability 8000 (SA 8000), and Corporate Social Responsibility (CSR)) in response to the environmental and social impacts of corporations [14]. The previous studies e.g. Wallis [15], Grbac and Lončaric [16] show the link between ethics and social responsibility in business sector. CSR has been viewed as a means for sustainable development [17]. The effectiveness of implementing the sustainable development programs might depend on the degree to which organizations emphasize organizational ethics. Since companies need to find an appropriate way to support and maintain sustainable development, ethics at the workplace seems to be supportive of corporate sustainable development (CSD) [18]. This is because ethics focuses on the long-term development of human society [18]. The establishment of organizational ethics that is composed of ethical climate and culture in organizations encourages good sustainable development practices [19].

Ethical climate and ethical culture in an organization have been recognized as important to business outcomes (such as organizational commitment, job satisfaction, and ethical decision-making) [20]. A study by Shapiro-Lishchinsky [21] states that there is a relationship between individuals’ perceptions of organizational ethics and their job withdrawal behaviors (e.g. absence and intent to leave jobs). They expect the organizations to provide ethical environments in exchange with their loyalty (e.g. coming on time and remaining in their jobs) [21]. The appearance of ethics in organizational settings has a positive influence on individuals’ behaviors. Normally, corporate ethics attracts people to participate in a company’s activities, for example, not only investors choose to deal with socially responsible firms but employees also choose to work for them [22].

Differentiating the meaning of two words “ethical climate” and “ethical culture” is important to get a clear understanding of the concepts discussed in this paper. Ethical climate refers to employees’ perception of how their organizations are ethical [23]. At the workplace, managers can influence organizational ethical climate because employees observe supervisors’ behaviors and then they might copy these behaviors [24]. Ethical culture presents formal and informal control systems which have more influence on employees’ ethical behaviors than ethical climate [25]. Ethical climate reflects more symbolic understanding of an organization’s ethics while ethical culture plays a more operational role in promoting ethical behaviors [25]. Without organizational ethics, employees’ unethical behaviors raise in the workplace [26].

In this paper, organizational ethics are considered as extremely important to achieve sustainable development of firms [27]. Organizational ethics affect ethical decision-making and outcome [28]. Thus, it can play a role in influencing how well the organizations operate to meet the needs and interests of their stakeholders without harming others in society. Organizations should learn how to effectively promote ethical standards among their members. Ethics should be integrated into the key components of business strategies. The impacts of business strategies on sustainable development are that they can solve the problems (e.g., environmental problem, social injustice, and economic problem) under the current condition of unsustainable development. Business strategies are supposed to rely on ethical economics (using resources in sustainable way), social justice (producing the greatest benefit for the greatest number of people), and sustainable environment (creating a sustainable environment management) [29]. This paper therefore assumes that organizational ethics has an impact on the success of sustainable development because it encourages individuals to behave in ethical and sustainable ways. It then presents the concept of sustainable development (at the macro and micro levels) as well as the concept of organizational ethics (encompassing ethical climate and ethical culture).

2. The Concept of Sustainable Development

The concept of “development” in social sciences is viewed as a process that aims at improving people's well being. It has four dimensions; socio-economic, cultural, political and psychological dimensions [30]. Recently, the new concept of “development” has emphasized the importance of appropriate development in which the development goals are to do the best things for individuals, communities, and environment [31]. Its concerns are not just with corporate profits and the gross domestic product (GDP) of the country [31]. The concept of appropriate development is linked to sustainable development (SD). The term “sustainable development” is a process for meeting the goals of human development while at the same time sustaining the natural systems to continue providing natural resources and ecosystem services upon which the economy and society depend on [32]. While the modern concept of sustainable development is derived most strongly from the 1987 Brundtland Report [11], it is rooted in earlier ideas about sustainable forest management and twentieth century environmental concerns.

Besides that, the United Nations also came up with its own model called “The Circles of Sustainability” to help countries understand the meaning of “sustainable development” and “sustainability”. It covers four aspects of life on Earth namely economics, ecology, politics and culture (see figure 1). It aims to achieve the continued well-being of the economy, ecological, political, and cultural base [10].

While the term “sustainable development” was initially used at the global level, it has been increasingly applied to the corporate context [33]. This paper concerns SD at the organizational level. It is part of the macro level or national SD. It is referred to as corporate sustainable development (CSD) CSD is the role and responsibility of corporate
managers. It used to be known as corporate social responsibility (CSR) or corporate citizenship (CC) role.

Additionally, corporate sustainability (CS) is viewed as the concept that orient the existence of firm [41]. CS needs support from corporate citizenship role. The term “corporate citizenship” is connected with CSD as it is defined as “working to meet a firm’s economic, ethical, legal and discretionary responsibilities to the wider society” [42]. Based on its concept, corporate citizenship can be used to provide better quality services to customers, improve employee motivation, and offer moral value to stakeholders [41]. Proactive corporate citizenship actions have a positive impact on business performance [42]. It can be concluded that both CSR and CC actions of firm can support sustainable development at the organizational level (micro level), which in turn it would benefit sustainable development at the macro level.

The predominant corporate sustainable development framework is composed of an integration of the three dimensions; economic, social, and environmental development [36]. Therefore, corporate sustainability can be defined as a long-term organizational changing progress which aims to accomplish economic, environmental, and social competence of the organization [34]. Those organizations that are able to launch comprehensive CSD can assist them to gain and sustain competitive advantage over time. Corporate sustainability performance needs to be strengthened by organizational ethics. This paper highlights organizational ethics as a determinant of an organization’s sustainable development performance.

3. Organizational Ethics

Ethics is known as a branch of philosophy that is related to principles of good and bad [43]. This paper considers ethics from a business point of view. Principles of ethics provide useful guidelines for organizational practices because they clarify what the right thing is. They assist businesses to make moral decision and performance [44]. Organizational ethics encompasses basic ethical values (integrity, honesty, fairness, responsibility, etc.) shared by an organization’s members [45]. Organizational ethics provides “a framework for ethical discourse across all aspects of the organization and creates a framework through which an institution can recognize the relational nature of its being; its impact, positively and negatively, on others” [46].

Organizational ethics requires the support of an organization’s ethical vision and strategy [47]. Then, companies should have the capacity to carry out ethical strategic plans [47]. They must protect the interests of all related parties. They are not only responsible to the needs of shareholders (e.g. increasing profit for shareholders), but also they should protect the interests of other parties (e.g. not to damage the natural environment, not to harm human rights). The organizations that generate the principles of ethics might develop a guiding framework for ethical practices but the effectiveness of ethical practices depends on the capability of both employers and employees. They should be able to analyze the ethical aspects of problems,
identify alternative ethical solutions to the problems, and choose the most appropriate ethical solution [48]. This shows the requirement of competent practitioners to implement ethical strategic plans of the firms.

Companies might integrate the principles of ethics into management process (planning, organizing, staffing, directing, and controlling) to ensure their implementation of ethical strategic plans [49]. Since organizations can implement ethical strategy through organizational management, many of them enhance ethical performance by using the code of ethics as a practical guideline [50]. The code of ethics is not just about right and wrong, but it presents a contractual sense of duty to all employees [51]. They must be motivated to perform their work in accordance with the code of ethics. Organizations with the demonstration of organizational ethics are respected by stakeholders [45]. Brooks and Dunn [45] maintain that businesses should demonstrate organizational ethics throughout their organizations and all their business dealings. This paper sheds the light on the importance of organizational ethics in sustainable development. The previous studies present that the achievement of sustainable development goals is affected by the intention of employees to act ethically. Employees’ intention to behave ethically for serving sustainable development goals might depend on the extent to which they perceive their organizational ethics [52,53]. A study by Koh and Boo [54] states that ethical climate and ethical culture are related aspects of organizational ethics. The previous study found that organizational ethics increases employees’ commitment [54]. Both ethical climate and ethical culture in the organization assist employees to build a strong sense of ethics. According to the development of ethical climate and culture in the organizations, their employees would be well aware of the importance of ethical performance. However, organizational ethics implementation is affected by regulations and policies of the state, and relevant international laws. Businesses need supportive regulations to boost their ethical performance [55].

The organizations that are successful in promoting organizational ethics may achieve the sustainable development goals of the firm. This paper developed a proposed framework that is useful for conducting the research on role of organizational ethics in sustainable development (see figure 2). The independent variable is “organizational ethics” (comprising two aspects; ethical climate and ethical culture) while dependent variable is “sustainable development”. The definitions and concepts of the two terms “ethical climate” and “ethical culture” are discussed in this section. The positivist methodology can be used to evaluate the interrelation between organizational ethics and sustainable development because the purpose of a conceptual framework is to find out the reality which can be measured and it exists apart from the researchers [56].

Figure 2 A conceptual framework

Figure 2 shows that there is the possible link between organizational ethics and sustainable development [57]. Sustainable development is hypothesized to be affected by organizational ethics that consists of two elements, ethical climate and ethical culture.

3.1. Ethical Climate

Ethical climate is a type of work climate in organization [58]. It is defined as the shared set of understandings about what ethical behavior is and how to behave ethically [59]. It influences individuals’ perception of how their organization encourages ethical behavior throughout an organization [60]. It then refers to individuals' shared perceptions of ethical practices and procedures of their organization [61]. Ethical climate is significantly associated with ethical behaviour [58,61]. On one hand, an organization’s members who perceive their organizational climate as ethical often show concern for the importance of corporate ethics and social responsibility (e.g. concern for stakeholders affected by their performance) [62]. On the other hand, employees who perceive organizational unethical climate are likely to minimize the importance of ethics and social responsibility [63]. Kim and Miller [64] suggest that the organizations should create an appropriate ethical climate that reinforces ethical behaviors of their employees. In doing so, ethical climate model may be required to foster their organizational ethical climate.

Martin and Cullen [65] identified five ethical climate types that are caring, independent, law and code, rules, and instrumental (see Figure 3). First, caring is the ethical climate type that emphasizes concern for others (e.g. concern for well-being of others) [58]. Second, the independent climate reflects the situation that persons act in accordance with their own personal moral beliefs [58]. Third, the law and code climate is based on the perception that the organization supports decision-making based on external codes such as law and professional codes of conduct [65]. Fourth, rules dimension of ethical climate is related to accepted rules of conduct determined by the firm
Organizational decisions are guided by local rules or standards such as codes of conduct [65]. Fifth, the instrumental climate is associated with the egoistic criterion used for decision-making. Organizational decisions are based on its personal interests [58].

Figure 3 Five ethical climate types

Figure 3 presents five ethical climate types comprising caring, independent, law and code, rules, and instrumental. An adoption of the ethical climate model could encourage ethical decision-making and ethical behaviors at the workplace. Its consequences, therefore, support the mission of sustainable development.

Basically, ethical climate has a positive relationship with job satisfaction. The perceived ethical climate of the organization makes employees feel satisfied with work. Considering the relationship between different types of ethical climate and job satisfaction, a study by Martin and Cullen [65] found that the four types of ethical climate; caring, independent, law and code, and rules influence job satisfaction positively. These four types of ethical climate can be applied to maintaining employees’ job satisfaction. Conversely, employees’ perceptions of instrumental ethical climate have the negative effects on job satisfaction [65]. Additionally, ethical climate can influence organizational commitment [58]. The term “organizational commitment” refers to a force that binds an individual to involve in organizational activities and to remain in organization [66,67]. Since employees who perceive ethical climate are committed to their organization, they are expected to be committed to their organization’s mission of sustainable development as well. This is because committed employees often pay a lot of attention to their organization’s work activities (including the organization’s sustainable development activities).

3.2. Ethical Culture

Ethical culture is considered as one aspect of organizational ethics. Normally, ethical culture encompasses “the experiences, presumptions, and expectations of how the organization is preventing unethical behavior and promoting ethicality” [68]. Ethical culture reflects a set of formal and informal organizational control mechanisms that aims to influence ethical behavior of an organization’s members [54]. Ethical culture has been viewed as a determinant of ethical behaviour [69]. It simulates ethical conduct (i.e. the positive behavior) [70]. It can foster individuals to perform ethically and avoid wrongdoing [71]. Ethical culture plays a crucial role in enhancing an organization’s ethical performance as well as monitoring sustainable ethical business practices [72].

The previous studies (e.g. Pflugrath, Martinov-Bennie and Chen [73], Whyatt, Wood and Callaghan [74]) found the importance of sustainable development programs (e.g. the code of ethics). The research findings by Pflugrath, Martinov-Bennie and Chen [73] state that the code of ethics (namely International Standard on Quality Control 1: ISQC1) has a positive impact on the quality of auditors’ judgments. These findings confirm that the code of ethics benefits the organizations in terms of ethical performance improvement and corporate ethical reputation [74]. The code of ethics not only encourages employees to perform ethically and professionally, but it also shows a signal to the public that the code of ethics exists within a company [74]. Using the code of ethics is helpful for a company to make its positive image and a reputation.

However, the accomplishment of sustainable development programs mentioned earlier requires the support of ethical culture. A study by Park and Blenkinsopp [75] argues that employees’ compliance to the code of ethics is increased when it is supported by ethical culture. Some evidence supports that a strong ethical culture in the organization may provide it with financial benefits [76]. Their reputation for ethical culture is associated with a high level of employee and customer loyalty [76]. Hence, it can be said that doing business ethically can improve financial performance. Many companies realize the significance of ethical culture but they need to know how to promote ethical culture at the workplace. The corporate ethical virtues (CEV) model developed by Kaptein [76] could be applied to promote ethical culture of an organization (see Figure 4).
them feel they are ready to improve their conduct [68]. Eighth, sanctionability refers to the extent to which the organization reinforces ethical behavior in the workplace by rewarding ethical behavior and punishing unethical behavior [68]. The organizational virtue of sanctionability reflects that the organization values ethical behavior [68].

The CEV model provides an understanding of the determinants of ethical culture. Organizations with the capability to create ethical virtues can gain success in developing ethical culture at the workplace [77]. However, the CEV model should be investigated further, particularly in different areas or regions where people hold different cultural values. The CEV model may need to be adapted to a specific area in order to effectively produce ethical culture in various types of organizations as well as in various countries.

4. Discussion

Many studies (e.g. Ciasullo and Troisi [78], Milne, Tregidga and Walton [78], Venkatraman and Nayak [80]) agree that the idea of corporate sustainable development (CSD) has become important to all businesses since it presents the means to promoting long-term success. Brundtland’s definition of sustainable development has been used as a basis for corporate SD [81]. The concept of corporate sustainability is mainly based on three principles; economic integrity, social equity, and environmental integrity [57]. Organizations may tend to reach these three principles as they facilitate sustainable development. Moreover, the organizations that are able to develop and sustain organizational ethics would logically be better to respond to the needs of present stakeholders without hurting the ability of future generations to meet their own needs. In practice, organizations should set managerial tools to support and reinforce ethical performance so that their members would behave in accordance with the organizations’ ethical standards. Ethics influences daily behaviors and decision-making in organizations at all levels [82]. Companies should know how to effectively communicate organizational ethics to their employees [82]. They must see ethics as an essential part of a company’s culture [84].

The two words “sustainability” and “sustainable development” have been increasingly used for organizational management [40]. Pursuing ethical business objectives serves sustainable development around the world, for example, sustaining a clean environment benefits everyone and promotes the sustainability of the planet [85]. The pursuit of ethical business objectives can be seen or observed through the corporate social responsibility (CSR) policy and performance. CSR is defined by the European Commission as “a concept whereby companies integrate social and environmental concerns in their business operations and in their interaction with their stakeholders on a voluntary basis” [28]. In the context of CSR, the
concept of stakeholder is the central focus [86]. Companies should identify who the major stakeholders are. They must pay attention to the expectations of stakeholders [85]. Thus, it is necessary for companies to identify the expectations of different stakeholders [86,87]. But they probably cannot respond to the varieties of expectations immediately. Whereas stakeholders show many expectations, companies can only pursue several objectives at the same time [86]. Thereby, companies require the capability to identify and prioritize the corporate sustainability practices that are the most important practices in enhancing corporate sustainable development [88].

In this paper, the establishment of organizational ethics is considered as a proper method for achieving sustainable development goals. Its assumption is consistent with several studies (e.g. Fray [89], Payne and Raiborn [90]) which highlighted the link between ethics and sustainable development, for example, the focus on the impact of ethics on behavior in terms of social responsibility and sustainable development [89]. Since many organizations may have a question about how to create organizational ethics, previous studies maintain that the development of ethical culture together with ethical climate produces organizational ethics [53]. Ethical climate and culture in the organization encourage its members to act correctly with right understanding of ethics. A study of CSR-based model of clinical governance by Tuan and Ngoc [91] asserts that ethics guides the organizations’ members to focus on the long-term strategy toward sustainable development of community and sustainable growth of the organizations. However, a challenge for companies under changing environments (such as economic and political changes) is how to remain ethical in line with the concept of sustainable development.

A study by Payne and Raiborn [90] identified four levels of sustainable development efforts for businesses. The level of sustainable development efforts reflects the degree to which sustainable development performance of a company is derived from philosophy of ethics [90]. A business can determine its participation in sustainable development activities by using the hierarchy of ethical behavior as a tool [90]. First, basic level of behavior; companies perform legally acceptable level. They are more likely to comply with the letter of the law than the spirit of the law. They view sustainable development program as it provides a greater cost than benefit. Thus, they would make no effort to work for sustainable development. Second, currently attainable level of behavior; companies believe that some benefits arise from their practices in sustainable development programs. But they probably participate in sustainable development activities for the wrong reasons (e.g. cost reduction, revenue enhancement etc.) that provide them with short-term monetary benefits. Third, practical level of behavior; companies are concerned with doing the right thing relative to sustainable development. They choose to do it because it is right rather than it provides short-term monetary benefits. They realize that the cost of pursuing sustainable development activities might be expensive but they would receive the greater long-term benefits. Fourth, theoretical level of behavior; companies participate and engage in sustainable development activities because these activities are ethically. This level reflects the highest spirit of morality.

The concept of the hierarchy of ethical behavior assists companies to differentiate each level of sustainable development efforts. They might decide whether it is the most beneficial way for them to climb up to the highest level of sustainable development efforts. If they create sustainable value which is consistent with ethical principles, they would get not only economic benefits (i.e. monetary benefits), but also social benefits [92]. For instance, sometimes people’s perception of businesses is not good because of their wrong behavior (corruption, tax avoidance etc.) [93]. Enhancing their business performance related to ethics makes their credibility increase [93]. Of course, their benefits can be both economic (profit, revenue) and social benefits (to appear trustworthy to others). The presence of ethics in organizations is associated with sustainable success [94]. Normally, those companies that put a strong emphasis on organizational ethics often get a clear direction to reach sustainable development goals. They have a clearer point of view in which ethics is involved in every aspect of business performance [90].

According to the hierarchy of ethical behaviour [90], it can be concluded that the achievement of sustainable development depends on the degree to which a company holds ethical philosophy. A deep understanding of ethics and a capability to interpret philosophy of ethics into practical applications are necessary for the quality of a company’s ethical performance [95]. Similarly, this paper considered organizational ethics as an important determinant of sustainable development. Building a strong sense of ethics in organizations help them to remain ethical in contemporary business environments and to attain sustainable development goals [96]. Companies with the spirit of ethics put more efforts to serve sustainable development than those who just follow the letter of the law. Their ethical performance not only results in higher business growth, but also produces benefits for other people (e.g. save the planet). The ultimate goal of business growth is called sustainable growth [97]. One of the mainstreams of sustainable growth is ethics [97]. Businesses that aim to achieve sustainable growth should focus on an enhancing of ethical climate and ethical culture since they provide support to accomplish sustainable growth [97].

5. Conclusion

Whereas research on role of organizational ethics in sustainable development was rarely seen in the past, it needs to be explored further in order to gain insight into the
relationship between organizational ethics and sustainable development. The future research on organizational ethics should focus on ethical climate and culture in various types of organizations and in different countries. This is because people from different cultures might have different perceptions of ethics and sustainable development.

Besides organizational ethics (i.e. ethics at organizational level), ethics at individual level can have an impact on sustainable development as well. It is reasonable to comment that research on ethics at individual level should be investigated for getting sufficient knowledge of this issue [98]. Research findings of ethics at individual level (e.g. Elango, Paul, Kundu and Paudel [99], Guler and Yuksel [100]) could be applied to strengthen ethical performance of an organization. The accomplishment of ethical performance requires individuals who are concerned about the rights of well-being of others [93].

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