AN EXAMINATION OF ETHICAL GOVERNANCE: ITS ROLE IN ENERGISING COMMITMENT TO RESPONSIBLE BUSINESS PRACTICES

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ABSTRACT

The field of business management continues to explore for more appropriate ways of responding to emerging issues on social responsibility. One notable shift that has occurred following a rethink in corporate governance and wider business management approaches is a move away from being solely preoccupied with the goal of maximising the wealth of owners. In the wake of growing public demand on social issues, businesses of all sizes are increasingly recognising the need for their practices to be seen to be responsive to broader stakeholders' expectations. This includes the need to demonstrate a commitment to social responsibility. Drawing from varied theoretical perspectives encompassing notable ethical and corporate governance theories, this paper examines the role of ethical governance and its likely impact in encouraging responsible business conduct. Secondary data procedures are employed to elucidate on the topic, with evidence pointing to the strong but often intricate connection between ethical imperatives in governance and responsible business practices.

Keywords: Corporate Governance, Corporate Governance Theories, Ethics, Ethics Theories, Ethical Governance, Responsible Business Practice, Corporate Social Responsibility, Stakeholders.

INTRODUCTION

Ethical governance, ethical leadership, and responsible leadership are some of the themes that attract wide coverage in corporate governance literature. Given the increased focus on sustainable business strategy, there is also growing emphasis on 'good sustainability governance' as an integral part of the broader corporate governance approach (Grayson et al., 2022). While these terms may not always be utilised interchangeably they are considered in the context of this paper to be closely related and complementary. Central to these governance approaches is the requirement for ethical behaviour, transparency, and accountability both within the work environment and in responding to wider stakeholders' expectations (Hoang et al., 2023; Sun et al., 2024; Azila-Gbettor et al., 2024). An attribute associated with ethical governance in literature is that it enables responsible business practice (RBP) more often referred to as Corporate Social Responsibility (CSR).

The idea of CSR in the modern era is traced to Howard Bowen's 1953 publication highlighting the social responsibilities of businesspeople (Carroll, 2016; Inoue & Lee, 2011). Carroll's CSR pyramid, proposed in 1991, appears to be the most well-known CSR model (Carroll, 2016). The four-dimensional pyramidal model identifies the economic, legal, ethical, and discretionary/philanthropic expectations placed on organisations by the societies in which they operate. Carroll clarifies that although the ethical responsibility is presented as

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a separate category of CSR, ethical considerations permeate the other elements in the pyramid. Other well-known dimensional presentations of CSR exist including the three-dimensional model that focuses on the social, environmental, and stakeholder responsibilities of organisations (Gálvez-Sánchez et al. 2024; Wu et al., 2024).

In (Carroll, 2016), it is acknowledged that CSR is a growing concept which is now being applied under different names around the globe. Evidence from literature suggests widening usage of the term RBP. 'In (Cronje et al., 2017) RBPs are defined as 'practices followed by companies in acting responsibly towards their stakeholders and their operating environments'. Drawing a link between RBP and CSR, Cronje et al., opine that RBP, as a terminology, is a more encompassing way of viewing the concept of CSR – given that it accommodates smaller enterprises. This view is shared by (Ryan et al., 2010) who suggest that RBP is a more appropriate fit as it recognises the different motivations for engagement and methods of operationalism associated with small and medium-sized enterprises (SMEs). In a similar vein (Dmytriyev, et al., 2021) propose the term socially responsible management practices (SRMP) in preference to the abbreviation CSR. In their view, structural and strategic differentials associated with SME businesses mean that many elements of the CSR agenda cannot be perfectly applied to them.

Conversely, an emerging trend points to wider usage of RBP in referring to the CSR activities of large corporations. For instance, the guidelines on responsible business conduct for multinational companies issued by the Organisation for Economic Co-operation and Development (OECD) solicits for a commitment to RBPs (OECD, 2014). More recently, Meta released its first 'Responsible Business Practices Report' in July 2023. The report provides information on the company's societal impact and their approach to operating responsibly. Meta's (Meta, 2023) RBPs are anchored on the need to conduct their affairs responsibly, ethically, sustainably and transparently, with the aim of adding value to stakeholders and maintaining stakeholders' trust.

A review of more than thirty references on RBP, CSR, and SRMP shows very minimal divergence in requirements and expectations. Rather, we find converging points, namely the need to honour ethical values, operate sustainably, build effective stakeholder relationships and add value to stakeholders while seeking to achieve commercial success (Carroll, 2016; Cronje et al., 2017). In order to effectively address the dissimilarities in size, structure and engagement methods of business entities, contextualisation is recommended. A contextual approach to RBP will enable organisations to align their goals with broader corporate governance and social responsibility expectations by tailoring them to suit their setting (Ting et al., 2022).

Writing on the attributes of responsible business, (Ting et al., 2022) point out that it is often characterised by an organisation's demonstration of ethical and moral codes of conduct for its internal and external stakeholders. As such in the increasingly evolving and challenging 21st century operational environment there continues to be an emphasis on ethical issues and organisations need to be seen to be demonstrating ethical conduct in their operations. For instance, in advocating for 'higher ethical morality' in the governance of Artificial Intelligence, (Xue & Pang, 2022) argue that emerging technologies, while offering disruptive benefits, are often associated with uncertainty and ethical dilemmas.

The suggestion then is that in seeking to address issues at either the micro or macro level the normative strategic response from businesses would be to consider key questions around what the right thing to do is and how best to respond accordingly (Jain et al., 2024). This approach points to ethical leadership, and our examination reveals that it has an interlink with RBP. As evidence of this interlink, it is reported that the covid-19 pandemic prompted increased CSR actions (Wirba, 2023). The goal in the next section is to consider ethical

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theories and their implications for achieving ethical governance. Following this, a review of five well-known corporate governance theories will be undertaken. The corporate governance theories are agency theory, stewardship theory, legitimacy theory, institutional theory, and stakeholder theory. The critical analysis will involve highlighting their implications for a comprehensive approach to ethical governance and RBP.

ETHICAL THEORIES: THEIR IMPLICATIONS FOR GOVERNANCE

Ethics can be defined as a system of moral principles governing the appropriate conduct for a person or a group. The issue of ethics is aimed at maintaining moral standards and hence minimise the need for stringent regulation. There are different types of ethical theories that exist primarily because various philosophers adopted different perspectives regarding the benchmark upon which ethical judgements should be based (Aronson, 2001). Three ethical approaches, deontology, teleology, and virtue ethics will be reviewed. These three ethics perspectives have distinct differences in terms of primary focus and in relation to what constitutes a right action. In terms of primary focus, consequentialist teleology tends to focus on consequences; cost versus benefits – of the act. While deontology focuses on duties: moral obligations with reference to the act. It does not look beyond the act itself in assessing its moral worth. Then virtue ethics focus on character development – for the person (Brady, 1999). Then virtue ethics focuses on character development – for the person (Brady, 1999). In relation to what constitutes a right of action, consequentialist teleology promotes the best consequences in which happiness is maximised. Deontology, in contrast, advocates for the right action to be in accordance with the moral principle required by God, natural law or rationality (Thomas, 2001). A right action in relation to virtue, however, is one that a virtuous agent is disposed to make in the circumstance in order to flourish or live well (Thomas, 2001).

Deontology owes its origin to (Kant, 1964). It can be defined as the study/theory of moral obligation. To understand Kant's deontology, one needs to understand his notion of "good will". It means acting out of respect for the moral law i.e. for the sake of duty (Kant, 1964). In (Macdonald & Beck-Dudley, 1994) it is argued that deontological approaches to ethics attempt to establish the content of duty without considering the consequences of particular ways of acting. Further arguments against Kant's theory include its presuppositions in relation to human ability and universality, the claim that it allows no possibility for morality to derive from other motivating factors such as empathy, compassion, or cultural distinctions, dismissing these as anthropological rather than innate. Thus, the main problem with the approach is its rigidity. In addition, critics of Kant's virtue ethic point out its cultural relativism in that different people and cultures can consider different character traits as virtues (Hursthouse, 1997; Donaldson & Dunfee, 1999; Velasquez, 2000).

In offering a line of support, (Helms & Hutchins, 1992) insist that the moral value of a particular behaviour should be separated from the outcome because the certainty of the outcome is questionable at the time of the decision to act. As such, it is important to appreciate the contribution of Kant's insistence on absolute demands of duty. Thus, a strength of Kant's theory is that it does not play favourites nor make exceptions. The same fundamental rules of morality apply to everyone regardless of class, colour, caste, race, creed and gender. One other advantage of this approach to morality is that it looks more closely at the individual and his choices, rather than the actual consequences of what he does (which, it could be argued, he has no control over). Furthermore, a normative claim is the idea that stakeholders have intrinsic moral rights in relation to the management of corporations. The arguments in support of stakeholder concept are rooted in the theories of Kantian duties and

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rights. The idea that a person by virtue of being a person possesses intrinsic moral rights can be traced to Kant's theory.

Teleological approaches to ethics tend to morally evaluate actions by evaluating their consequences (Garofalo, 2003). Hence, right actions are right because they tend to have good consequences and bad actions are wrong because they tend to have bad consequences (Macdonald & Beck-Dudley, 1994). Thus, from a teleological perspective, evaluations of consequences as good or bad provide the premises for inferring the norms of right acting. A theory is teleological if it justifies the right, moral duty, or obligation, on grounds that it promotes what is good (Gaus, 2001). Following this, an act is defined as moral if it is deemed to produce a greater degree of good than any other alternative and is immoral if it failed to do so (Aronson, 2001). Further buttressing this point is the argument by (Helms & Hutchins, 1992) who perceive teleological perspectives to ethics as emphasising the outcome/consequence as opposed to the initial intent of the individual behaviour.

Ethics of virtues (and vices) tend to elaborate on the process of personal moral character development. In (Garofalo, 2003) it is suggested that the morality of an act is determined by the character traits that it demonstrates. Thus, the object of moral evaluation is not the act itself but the character of the actor. To fully understand what constitutes a virtuous act, (Aristotle, 1976) set out three conditions. The first condition is that the act must fit its appropriate purpose. Secondly, the act must be virtuous, and finally the act must result in a steady state of character disposition not a one off or impulsive act. A virtuous act is summarised by (Thomas, 2001) as: a rational act based on a wise, purposeful assessment of the factual situation. As with Kant's approach, critics of the virtue ethic raise the issue of cultural relativism in that different people and cultures can consider different character traits as virtues (Hursthouse, 1997; Donaldson & Dunfee, 1999; Velasquez, 2000).

It could be argued that ethical problems are thus resolved most effectively by employing the teleological, deontological and virtues points of view simultaneously. As suggested by (Woller, 1998) people are neither entirely deontological nor entirely teleological in their moral points of view, because human behaviour is motivated by principles of right and wrong and the concern for consequences. Commenting on the ethic of virtues, (Thomas, 2001) proposes that managers add an attention to the virtues and the vices of human character as a full complement to moral reasoning according to a deontological focus on obligations to act and a teleological focus on consequences (a balanced tripartite approach). This point is also echoed by (Whetstone, 2001). Furthermore there is a need to link in various cultural distinctions and consider the need for empathy and compassion. It is argued that an interactive tripartite approach is a more effective system aimed at meeting the complicated requirements of an applied ethic (Garofalo, 2003).

In (Schwartz, 1998) six set of universal moral standards are proposed which take into account global codes of ethics and the Interfaith Declaration, a code of ethics for international business (Webley, 1996). The commonalities between the ethical principles as identified by Schwartz are trustworthiness (including notions of honesty, integrity, reliability and loyalty) respect (including notions of respect for human rights), responsibility (including notions of accountability), fairness (including notions of process, impartiality and equity), caring (including the notion of avoiding unnecessary harm) and citizenship (including notions of obeying laws and protecting the environment). As argued by (Schwartz, 2002), the six standards are universal in nature, 'in that they can be considered of fundamental importance regardless of time, circumstance, cultural beliefs, or religious convictions.' In this respect, these core moral standards are suggested as forming a normative basis by which to construct a code of ethics for businesses (Schwartz, 1998; Schwartz, 2002).

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An evaluation of literature on governance, regulation, CSR and ethics suggests the need for accountability, responsibility, transparency and trust to regain/sustain public trust and investor confidence. Using Immanuel Kant's theory, (Wolfensohn, 1999) argued that corporate governance is all about promoting corporate fairness, transparency and accountability. In (Forster & Nilakant, 2005) it is inferred that an organisational culture such as trust generation may be as critical as economic factors in ensuring success. In this regard, (Kaur & Mishra, 2010) point to public trust issues associated with corporate governance resulting from corporate failures, unethical business practices, insufficient disclosure and transparency, and there are growing calls for more transparency and accountability from businesses, an issue that has implications for their social acceptability and continued existence (Dong et al., 2023). In (Garofalo, 2003) emphasises that ethics in one form or another is grafted onto the corporate body as a preventative or remedial measure to help combat corruption, promote obedience to laws and procedures, and increase trust between citizens and institutions. (Holland, 2002) commenting on regulatory changes in the financial sector concluded that adherence to corporate accountability, responsibility, transparency and trust will significantly reduce the probability of adverse media coverage, damaging litigation or unfavourable regulatory changes which could undermine shareholder value.

CORPORATE GOVERNANCE THEORIES: IMPLICATIONS FOR ETHICAL GOVERNANCE AND RBP

Milton Friedman's 1970 argument against business social responsibilities is well documented. Friedman contends that profit maximisation is the social responsibility of business organisations (Friedman, 1970). In his view, any attempt to go beyond maximising shareholders' interests to incorporate social or ethical goals is ill-judged and could lead to undesired effects (Friedman, 2007; Wu et al., 2024; Carroll, 2016; Menyah, 2013). An alignment exists between Friedman's economics argument and the propositions of agency theory (Wu et al., 2024). Agency theory is considered as the fundamental base for other corporate governance related theories (Younas, 2022). It provides a lens for analysing principal-agent problems and the governance mechanisms associated with it in organisations (Onjewu et al., 2023; Medina et al., 2024; Garcia et al., 2023). Propounded by (Jensen & Meckling, 1976), the theory is primarily concerned with the agency relationship in which one party, the principal/shareholders engages another, the agent/management, to perform some delegated service on contract terms (Garcia et al., 2023). The expectation being that the primary responsibility of management should be to maximise profit in the interest of the shareholders (Wu et al., 2024). However, the goals of both parties are often incompatible (Rouault & Albertini, 2022) given that agency theory assumes that their interests may conflict and diverge (Ji et al., 2024). Also, it is often the case that the agent opportunistically maximises their interests at the expense of the principal (Bhaskar et al., 2023; Löhde et al., 2021), requiring the principal to incentivise the agent to achieve alignment in interests (Foreman et al., 2020). It is widely acknowledged that agency theory is predominantly utilised within an economic application (Mitnick, 2015; Solomon et al., 2021). Thus, in line with Friedman, the implication in relation to social responsibility practices is that it can only be carried out in the self-interest of management, and not for the benefit of shareholders (Menyah, 2013). The limited scope provided by agency theory for accommodating the interest of other stakeholders beyond shareholders also has implications for its usefulness as an ethical leadership approach.

Stewardship theory, originally propagated by (Donaldson & Davis, 1991), is a trust-based management model (García-Cabera et al., 2023; Torfing & Bentzen, 2020) that

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provides an antithesis to the perspectives of agency theory (Hadjielias et al., 2022; Nguyen et al., 2022). It serves as a framework for specifying the motivations of an individual's behaviour (Murtaza et al., 2021; Wei et al., 2021). The underlying assumption of stewardship theory is that managers as stewards will be highly involved, committed and behave in a manner that aligns with the interests of the owners (Battisti et al., 2023; Löhde et al., 2021). In seeking to fulfil the duties of their stewardship responsibility, leaders (rather than being individualistic) adopt a pro-organisational and collective-minded approach aimed at benefiting the organisation and society (Bhaskar et al., 2023; Wei et al., 2021). There is evidence that stewardship theory requires ethical behaviour from management and it promotes an organisation-wide approach to addressing social responsibility issues (Murtaza et al., 2021).

Legitimacy theory (Suchman, 1995) conceptualises the process by which social acceptability is obtained for the activities of organisations within the larger society in which they operate (Xue & Hu, 2023; Korkeamäki & Kohtamäki, 2020). In (Nohria, 2023) it is argued that gaining legitimacy is central to effective leadership. According to (Marques et al., 2021) leaders can exert influence and power because of the legitimacy of their authority and legitimacy garnered through the display of competence, credibility, trustworthiness, fairness, and previous successes. These are attributes with a significant bearing on ethical leadership. In relation to CSR, legitimacy theorists specify that CSR activities can be used as a strategy in an organisation's legitimisation process to enable it achieve congruence with the value system of society (Olateju et al., 2021; Tanang et al., 2020). In keeping with this view, organisations can justify their existence and enhance their perceived social legitimacy through better CSR practices (Li et al., 2024; Schiopoiu & Popa, 2013) and accounting for their CSR activities (Wang, 2023). It is also the case that undertaking more CSR activities will generate enhanced reputational capital and moral goodwill among an entity's stakeholders.

The propositions of institutional theory reflect the writings of scholars like (Meyer & Rowan, 1977; DiMaggio & Powell, 1983; Scott, 1995). The theory focuses primarily on explaining how homogeneity in formal structures and uniformity of practices can be achieved among organisations within an institutional setting (Joshi & Purba, 2022). Institutional theorists argue that for organisations within a society there are institutionalised patterns and prescriptions that need to be conformed to and complied with, as a means of receiving social support and gaining legitimacy and stability (Xue & Hu, 2023; Amankwah-Amoah et al., 2023; Chen & Roberts, 2010). This process which is known as institutionalisation is accomplished through external coercive, imitative, and normative influences that bring pressure to bear on organisations (Demsar et al., 2023; Joshi & Purba, 2022). The approach of institutional theory works to establish corporate governance as a social construct that combines both formal institutional rules and informal practices which are required when formal rules are unavailable, weak, or not clearly defined (Haxhi, 2023). This suggests the application of, among other things, ethical codes which (Dominguez et al., 2009) infer that corporations need to implement in order to recover the trust of investors reduced as a consequence of financial turbulence.

In articulating his concept of a stakeholder-oriented strategic management approach, (Freeman, 1984) propounds that those groups and individuals who can affect or are affected by the achievement of an organisation's objectives could potentially be identified as its stakeholders. Further normative clarity is provided by (Mitchell et al., 1997) who suggest that neighbourhoods, institutions, societies, and the natural environment could also be identified as actual or potential stakeholders. Their comprehensive approach in developing a theory of stakeholder identification and salience is considered relevant to the discourse on ethical

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leadership and RBP. Stakeholder theory embraces an operational model that recognises that what an organisation does, its ethical conduct in doing it, and the groups and individuals who have a stake in it are intertwined and inseparable factors (Rosner et al., 2023). In view of this, an organisation should take responsibility for its actions by ensuring that it conducts its affairs in an ethical manner and takes into consideration the interests of its stakeholders (Kwestel & Doerfel, 2023; Freeman et al., 2010). In this regard, a complementarity exists between stakeholder theory and CSR (Dmytriyev et al., 2021).

Focusing on accountability, (Rahim & Alam, 2013) assert that the convergence of CSR and corporate governance has changed the corporate accountability mechanism in that it has led to the development of a socially responsible corporate self-regulation, a synthesis of governance and responsibility in entities. In concurring, (Sacconi, 2011) views CSR as an extension of corporate governance in which CSR extends the concept of fiduciary duty from mono-stakeholder setting to a multi-stakeholder one where the business owes all its stakeholders' fiduciary duties.

Put together, governance requires ethical conduct and responsibility in engaging with all stakeholders and in seeking to meet stakeholders' expectations. Such an approach is crucial in attracting stakeholder approval. Research shows that information on a corporation's social and ethical conduct influences the purchasing decisions of its customers, as well as the brand value and reputation (Rossouw, 2005; Mittal et al., 2008; Wu et al., 2024). Also, ethical behaviour by managers can have a positive influence on employees and lead to the creation of an ethical climate in the work environment (Hoang et al., 2023; Ahmed & Khan, 2023). In emphasising the place of social responsibility in the corporate governance equation, it is important to recognise that risk is not only inherent in monetary investment, but also the investment in social relations (Giddens, 1991). Thus, organisations that adopt an ethical governance approach usually consider the maintenance of wide-ranging stakeholder relationships and society's trust to be of vital importance in ensuring mutual sustained development (Huang, 2010).

CONCLUSION

One implication of ethics evident from the perspectives provided by various corporate governance theories is that when the culture in a business is permeated by ethical conduct, it enables the organisation to effectively combine a drive for commercial success with a willingness to become more socially responsible. It will also enable mangers to avoid unethical conduct and transgressive leadership behaviours which can have an impact on the social identity of an organisation. In a 2002 speech on corporate responsibility, then US President George Bush stated that we need men and women of character who know the difference between ambition and destructive greed, between justified risks and irresponsibility, between enterprise and fraud. Those who sit on corporate boards have responsibilities. Following rising incidences of business failures, including the demise of well-known brands, it is now widely acknowledged that the demands of sustaining both investors' confidence and public trust require responsible leadership. In view of this, we submit that ethics will continue to exert a central influence in shaping the conduct and response of business leaders and the organisations that they lead. It is also the case that where ethical leadership approaches are employed, they have the tendency to energise a commitment to responsible business practices.

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