How Important is Business Ethics in Corporate Strategy

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Abstract

Every company has a vision and mission, as well as a desire to meet the goals it has established. These short- and long-term goals can be met in a variety of ways. As a result, the companies require a well-defined plan to attain their objectives. Increased corporate value, for example, in terms of increased profits, is one of the goals that is frequently met. Employees, managers, company owners, and investors all have problems when it comes to running a firm. Conflicts of interest and many types of interests from diverse roles inside the company, for example. This poses ethical concerns that affect the company's internal as well as external environments. This is a qualitative study that employs a literature review methodology. The findings of this study offer a new way of looking at ethical issues and corporate strategy: the corporate value approach. As a result, the contribution of this research gives a solution for businesses that are experiencing similar issues.

Keywords: Economics, Business Ethics, Corporate Strategy.

INTRODUCTION

Developments in the financial services industry, especially those that are directly related to the global banking industry, have prompted many shareholders, company owners, and other financial institutions as well as stakeholders to question the moral obligations of companies. Moral obligations and business ethics are an integral and important part of the strategic management process in a company (McManus, 2011). The failures of companies such as Lehman Brothers and scandals such as Adelphia Communications, Arthur Andersen, Enron, and WorldCom have contributed greatly to providing a perspective in building and maintaining shareholder and business trust.

For example, a study conducted by Barnard highlighted the leadership of a company CEO to be able to have a sense of moral responsibility (Barnard, 1968). Barnard laid out some of the basic principles of strategic management including the management of individual and corporate objectives. Barnard argues that the executive management process is not based purely on an intellectual perspective; it must be in accordance with aesthetics and morals, which involves a sense of self-confidence and appropriate responsibilities. Barnard further suggests that organizations survive in proportion to the extent of morality they have set in the organization. Executives have a moral responsibility to those they serve. The CEO/ *leader* also has a responsibility to inspire through leadership and by creating trust through shared understanding and purpose.

Early pioneers of strategy and strategic thinking such as (Chandler, 1990) and (Ansoff, 1965) provided support for ethical decision-making. Ansoff, in his book dealing with Corporate Strategy establishing a practical system for strategic decision making in business firms, identifies a prescriptive methodology for determining general ethical objectives in strategy formulation. Herbert Simon, Nobel Prize in Economics, shared his views on common goals by explaining that administrative decisions in an organizational context always have ethical and factual content (Simon & March 2006).

In line with Chandler's thinking, Andrews argues that corporate strategy is an organizational process in building its business and in many ways cannot be separated from the structure, behavior, and culture of the company, which in essence provides the basis for corporate strategy by defining the context in which the company will operate both in terms of human and economic (Andrews, 1971). Furthermore (Schendel & Hofer, 1979) also describes the results of their analysis related to a corporate strategy that will connect the organization with its social and political environment in the same way as the company's strategy interacts with industrial structures and the economic environment. Schendel strongly supports more pragmatic research in this domain. To some extent, their arguments represent a call for a more rigorous understanding of the ethical and social characteristics that dominate decision-making in companies.

(Schendel & Hofer, 1979) put forward the term 'strategic management which is still relatively new and is currently the accepted term for the field of policy and business planning in companies. However, matters relating to ethics are still developing in many literature studies and so far do not seem to be too problematic for strategic management academics. However, this is excluded by (Freeman & McVea, 2001) and (Freeman & Gilbert, 1988), in the publication of their latest book in the field of strategic management which pays less attention to ethics and moral obligations by management. Freeman and Gilbert's view simply illustrates that executives must learn to build a strategy on the basis of ethical reasoning, rather than pretending that strategy and ethics are separate. (Phillips et al., 2019) on stakeholder theory was instrumental in highlighting the need for negotiation with different stakeholders as part of the strategic management process. Then it is also argued by (Wicks et al., 1994) moving that stakeholders take a more radical position that stakeholder interests have intrinsic value regardless of whether this advances shareholder interests or not. Given this view, the success of an organization is not only an end in itself but should also be seen as a means to advance the interests of stakeholders other than shareholders. This means that the interests regarding the company's vision and mission do not end there, but there are other interests to be fulfilled.

Since 1988 research conducted by (Botten & McManus, 1999) and (McManus, 2011) has built on suggestions from Freeman and Gilbert to build a corporate strategy on the basis of ethical reasoning because ethical perspective has become an issue in companies or entities recently. Ethical analysis, in the author's view, is the only available way to resolve conflicts in values and goals and is therefore important in the strategy process. The development of corporate social responsibility has prompted several studies (Clarkson et al., 1994; Griffin & Mahon, 1997; Matten et al., 2003) to question the moral sensitivity of investment decisions made by interested parties. (Sternberg, 2000) argues that there are several cases relating to human rights to corporate social responsibility in its business practices in the community, namely that the stakeholder approach to management deprives shareholders of their property rights and community rights. Therefore, issues related to corporate strategy need to be harmonized with ethics that accommodate all elements, including company owners, investors, and the community, and even environmental impacts.

Based on several thoughts that have been stated in the previous paragraph, this study will consider the implications of how strategic management in companies to consider business ethics. In addition, this study will question the feasibility of considering business ethics by looking at the fundamental objectives of the strategic management process. This study will begin by providing a brief overview of the emergence of strategic disciplines in companies and ethics in general management. It will then consider what the moral issue is and how it conflicts with the manager's moral obligations. Next, we will focus on ethical principles, and how these principles impact the company in general. It will then discuss methods by which ethical principles can be integrated into strategic management and why they should be incorporated into strategic management models. This study will provide conclusions by changing the strategic management paradigm and the resulting practical efforts needed in a company strategy to as well as support future research references.

RESEARCH METHOD

This type of research is qualitative using a literature review approach. By still considering the results and research objectives to be achieved, namely a conclusion on the importance of understanding and implementing business ethics to support the company's strategy, both short term and long term (Vision and Mission). This research has considered the relevant information by staying focused on the problems that exist in the object or about the focus of the problem under study. This study also adds information from a company disguised with the company initials XYZ to provide additional references in discussing and resolving issues related to ethics in supporting the company's strategy. The existence of a literature review process is expected to provide the understanding and open new perspectives in solving problems discussed on the topic under study. So that further research is expected to be able to add information on the object of research or the observation process on certain entities that are considered adequate to be used as objects of research in this literature review process.

RESULTS AND DISCUSSION

Early models of strategic management focused heavily on controlling all forms of resources and threats from the external environment (Andrews, 1971; Ansoff, 1965). Ansoff's model is defined as a practical method for strategic decision-making in business enterprises and provides a detailed set of processes and checklists for achieving them. In the early 1970s, strategic engineering was a growing discipline in many US business schools. (Andrews, 1971) defines corporate strategy as a pattern of decisions in a company that determines and expresses goals, purposes, or objectives, produces policy principles and plans to achieve these goals, and defines various business achievements of the company.

The early 1960s marked a change in public and business attitudes. Multinational corporations are growing in size and variety of interests, replacing many small and medium-sized enterprises in the image of the business community (Subramaniam et al., 2009). For much of the 1960s, much of the material in business schools focused on social responsibility and social issues in management (De George, 1989). Research conducted by (Weller, 1988) has long been a proponent of business ethics, but it was only in the late 1970s that ethics began to emerge as a management discipline (Simonson & Staw, 1992).

Despite the similarities between the disciplines and understanding of strategy and business ethics (both use simple analytical procedures and the assumption of good competitive conditions), there is always a misunderstanding of perspective between the two disciplines. For example, some ethicists have a deep distrust of business management and accept a very basic microeconomic view of corporations that emphasizes profit maximization at the expense of human values (Hoffman et al., 1990). Developments in management thinking have seen something of a convergence of the two disciplines. The idea that strategy and ethics are separate and distinct fields of study holds in both the global and digital business economies of the twenty-first century (Donaldson & Grant-Vallone, 2002). Ethical theory needs to be more closely integrated with management practice, possibly during a time of many scandals and business failures.

From the results of research at company XYZ, it can be said that the moral problems associated with strategic decision-making are complex because losses for some individuals or groups can be expected to be associated with them. Benefits to other individuals or groups. For example, shifting operations to a low-wage (low-income) economy clearly harms workers transferred to other regions, but equally benefits new employees in other regions (due to regional minimum wage differences) and existing shareholders and other stakeholders such as suppliers and employers. creditor. (Zapka et al., 1992), the teachings broaden the debate from an economic perspective by accepting that some managerial action must be taken, regardless of harm to some, in order to maintain or enlarge the benefits of others. Companies must consider two benefits at once, namely benefits for the company as well as benefits for employees. The employee transfer process should consider from an ethical point of view that employees also need incentives to increase their performance efforts.

The analysis of ethical policy is related to the view that ethical principles are not subjective measures that differ from cultural and economic conditions; in essence, they are ground rules or first principles to ensure good from a societal perspective (Phillips & Margolis, 1999). Research from Philips helps make the application of ethics to economic and business issues more acceptable to researchers than ever before. What distinguishes business ethics as a field from social issues in management is the fact that business ethics seeks to provide an explicit ethical framework for evaluating a business, especially corporate activities. Although applied ethics has gained some ground in the last two decades, it is still under research in management. Recent developments in business ethics have shifted the debate away from normative ethics rather than examining each action according to its outcome, or the underlying principles, post-modern ethical discourses, and approaches are seen to characterize decision-makers (Crane & Matten, 2007). Several ethical theories used to gain insight and understanding seek to provide answers to the question of what decision-makers should do, and how this relates to ethics.

The ethical principles of analysis (Table 1) are objective, not subjective, and do not vary by culture, country, or time. The results of research (Reath et al., 1997), for example, that there is not the least amount of mutual harm among individuals, those with the least education, the least income and wealth, the least ability to influence them, have the same meaning in terms of any language. The evidence will show that moral standards and value judgments differ between people and groups (McManus, 2011). Although there have been various kinds of research that have been carried out, the reasons for this difference in moral values are not widely understood or stated in the literature. What we can conclude is that there are religious, cultural, economic, and social influences to consider. Empirical research conducted (Kohlberg & Hersh, 1977) has resulted in the conclusion that most people tend to think at a level that is consistent with what other people or those around them expect. Kohlberg's research concludes that most of us decide what is right according to what we think others believe, and according to what others expect. As stated earlier, ethical principles do not differ between people. Ethical principles are ground rules by which individuals can, if they choose, examine themselves. We can defend the idea of ethical principles as objective, consistent and enduring if we accept the proposed distinction between morals, values , and ethics, and if we only respect moral standards and value judgments we are subject to cultural, religious, social, and economic influences.

Table 1 Principles of Business Ethics

Ethical Model	Focus	description

Selfishness	individual desires or interests. Humans are limited by knowledge. Contributor: Adam Smith	The principle of the ethical model of egoism is that if we take care of our own interests, without interfering with the rights of others, then society as a whole will be better off because members of society will be as free and productive as possible (free to do what they want). The principle can be stated as: "Never take any action that is not in the interest of yourself and/or the organization you work for."
Utilitarianism	collective welfare. Humans are controlled by avoiding pain and obtaining pleasure. Contributors: Jeremy Bentham and John Stuart Mill	Business utilitarianism is ethical if the activities carried out can provide the maximum benefit to consumers and society. so a good business policy or action is a policy that produces good things, not vice versa.
Assignment Ethics	Humans are rational beings and have morals. Contributor: Immanuel Kant	Ethics is a doctrine regarding moral obligations that are not derived from laws or regulations from outside. Obligations are not natural but the achievement of the subject acts according to reason. Following reason are a moral obligation and not a natural tendency
Rights and Justice	Justice is fairness (justice as fairness). Contributor: John Lock and John Rawls	
Efficiency - Economy	Focus: shareholder supremacy, with the dictum "Business is business". That all economic systems are mechanisms to serve the needs of the population or society. Contributors: Adam Smith and Milton Friedman	This principle is based on the premise that basic rights are meaningless if basic needs such as food, shelter, and clothing are not available (fulfilled). For this purpose, each individual must maximize the output of the goods and services needed at a marginal economic cost. In theory, to achieve this goal, one must optimize and implement an efficient economic system. However, its weakness is that it is almost impossible to make someone better (fulfilling their desires) without harming or compromising the rights of others. So that the principle is always to act to maximize profits subject to legal and market constraints, maximum profit being the proof of the most efficient production.
Non-egalitarian (entitlement theory)	Justice in the economic system is ultimately a product of a fair process and a free market. Contributor: Robert Nozick	Justice means that each individual is given the freedom to choose according to their rights and desires

Sources: (Kant, 2017; Keller, 2007; Nozick, 1973; Smith, 1776; Terchek et al., 2001)

In addition, research conducted on company XYZ suggests a new perspective in building business ethics and its alignment with company strategy. From the results of an interview with one of the company owners, he expressed several views on business ethics and company strategy:

"In running our business at the company, we always prioritize religious or spiritual values. When it is time for prayer, all employees are obliged to stop their work. Although this is very important and related to transactions with company consumers. In our view, if Allah swt wants to take what we have it will happen in an instant.

Therefore, building a good relationship with the Owner of everything is something that must be done by all employees in our company. In addition, if the company wants to grow, the community must also grow. This must be in line with the economy, meaning that the company's economy is good, so the community must also have a good economy (eg in terms of income). In terms of an employee, welfare must be considered, salaries must be paid on time. Islam teaches to pay wages on time. That's the principle we hold in running the company's business. So employees can focus on work without thinking about anything else."

From the results of the interview, several things that can be revealed related to the company's ethics and business strategy are as follows:

Table 2 XYZ Company Business Ethics Principles

Ethical and Strategic Perspective	**Focus**	**description**
Religion	Closeness to the owner of everything (Allah SWT)	Ethics in business is based on a relationship with Allah SWT. So that in running a business the guidelines are generally accepted rules and religious teachings (may and may not). The company's business strategy is based on business development from three perspectives, namely a business strategy built with Allah SWT, a strategy built with the community, and a strategy built with the environment. In theory, it is generally related to social and environmental ethics
Owner	Building company business	Building the company's business based on company regulations and religious teachings. Remind employees and yourself if there are things that are not in accordance with the provisions of rules that apply in the company
Employee	Help achieve company targets	Complete all forms of work with full responsibility based on company rules and religious teachings. So that there are good values for the work done by the employee.
Public	Corporate consumers	The company has an obligation to protect the environment and its relationship with the community. So that the results obtained by the company can also be enjoyed by the community.

Source: Processed by myself.

From the results of the research presented in table 2, it is true that in carrying out the company's strategy, it does not only look at individualistic interests or based on certain interests. However, there are values that must be held by the company, its owners, and its employees so that the company can survive and grow in business competition. Therefore, companies need to have a strategy based on three perspectives of business ethics; including (1) religious perspective, (2) owner perspective, (3) employee perspective, and (4) community perspective. This can be used as the basis for maintaining the direction of the company's vision and mission. So that the strategy carried out by the company has *a value* that can be beneficial for both the company and external parties related to the company.

CONCLUSION

Cases that affect large companies such as Enron, Lehman Brothers, and WorldCom are caused by conflicts of interest within the companies. In addition to carrying out the vision and mission, the company should have values that can be used as a guide in carrying out its business activities. *Value* in this study is an ethical perspective that can be a reference for companies in maintaining their business activities so that they can run properly and correctly.

The ethics that must be maintained by the company include:

1. Ethics of relationship with God
   This ethics is a company procedure to run its business in accordance with religious rules. Rules made by humans are very vulnerable to be manipulated so that by adopting religious rules in running a business, it is expected to maintain good values in doing business.
2. Ethics of the Company Owner's relationship with God
   This ethic is a procedure for leading a company based on the owner's relationship with God. The existence of faith that is owned by the leadership is expected to maintain every decision-making in accordance with the company's goals in a good direction.
3. Ethics of Employee and Leadership Relations
   It is an employee-leadership relationship that is moderated by belief in God. So that in carrying out work activities there are religious values in it which are expected to maintain the quality of employee work.
4. Ethics of the Company's Relations with the Community and the Environment
   Companies, the environment, and society cannot be separated. If none of the three are harmed by each other, then the company's activities that develop will be in line with the integrity of the environment and the welfare of the community.

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