# ETHICAL DIMENSIONS OF MANAGEMENT DECISION-MAKING - A STAKEHOLDER VALUES APPROACH TO PERFORMANCE AND STRATEGY

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## CONTENTS

Page

Acknowledgments i

Abstract ii

Preamble 1

Introduction 2

Aim of the Research 4

Methodology 8

Ethical Decision-Making 13

The Question of Value 19

Why a Stakeholder Approach? 23

The Link to Performance and Strategy 27

Contribution to Knowledge 31

Conclusion 33

Future Research 37

References 39

Appendices 45

Appendix I 46
Public Output from Research and Scholarly Activity

Appendix II 53
Copies of Journal Articles Presented
Article 1 54
Article 2 61
Article 3 71
Article 4 83
Article 5 96
Article 6 106
Article 7 114
Article 8 122
Article 9 130
Article 10 142
Article 11 153

Appendix III 164
Statements of Contribution from Co-Authors

Appendix IV 176
The Tylenol Case

# CONTENTS (continued)

Page

Appendix V
The 'Prestige' Tanker Case 177

Appendix VI
The Super Total Productivity Index, with Examples 178

Appendix VII
Bovince Ltd. 180

**Tables/Figures**

Table 1
Journal Articles Presented 5

Figure 1
A Schema for the Business Process 9

Figure 2
Core Features of the Research and Their Interrelationships 12

Figure 3
A Schema for Strategic Development 30

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## ABSTRACT

The research shows how organisations can improve their strategic management decision-making, in the competitive global arena, through taking into account not only economic criteria but also ethical and environmental responsibilities. This can be achieved by embracing a shared vision and common values as well as be involved with, and accountable to, stakeholders. More and more, this seems to be the way forward as it is vital for both business and society to co-exist. The ethical dimensions of corporate strategy and business performance are determined and approaches to effectively treat the consequent dilemmas are posited. Good business ethics should become a fundamental purpose rather than just an 'add-on'; this is because they contribute to an organisation achieving a reputation which can be trusted and sustained. This thinking and its implications clearly thread through the articles presented.

Various frameworks and models, with guidelines and criteria, are developed to relate corporate social responsibility to performance management to create inclusive value. They are also shown to aid business decision-making in such diverse areas as empowerment, technology, competition, corporate communications, productivity and quality, environmental management and strategic organisational change. This research reveals that there is a definite synergy between business excellence and good ethical practice, when taking into consideration stakeholder expectations. This is because a purely financial model of performance is not appropriate for the 21st century. Thus, a performance-focused management system is the best vehicle for institutionalising targeted changes in the business process and galvanising action founded on high ethical standards.

## Preamble

Since 1993, the author has extensively published refereed journal articles (nineteen), conference papers (sixteen) and other forms of public output (ten), with work in progress (four); these are listed in Appendix I. The main drive of the output has been geared towards determining, understanding as well as seeking to resolve the ethical challenges that management decision-makers encounter. The business areas explored include productivity and quality management, Japanese employee orientation, empowerment, corporate communications, supply chain management, re-engineering, technology management, performance measurement and management, social and environmental responsibility as well as corporate strategy and tax planning. Other output appertains to quality processes for manufacturing and services, factories of the future and strategic investment appraisal. Amongst the sectors specifically investigated are nuclear power, finance, public services and the food industry.

Within such a broad spectrum of research, and due to the diversity of the subject domains as well as the versatility of the topic of business ethics, the author's entire output has been systematically analysed for the purpose of this submission. This has been carried out in order to elucidate on the key elements that need to be highlighted concerning ethical issues, within and outside, the workplace; moreover, the embeddedness and relevance of corporate social responsibility (CSR) are explored. It is intended not only to place CSR in mainstream business practice but to widen and deepen the associated debate. As such, eleven refereed journal articles, copies of which are in Appendix II, have been specifically selected to formulate a coherent and meaningful portfolio into the ethical dimensions of strategic management decision-making. This is conducted, in the main, by means of a stakeholder values approach, taking into account those directly affected by an organisations's performance, to be linked to business success. As can be seen, the published work has involved

collaboration with other researchers; Appendix III presents submitted statements of the author's contribution to the research for the purpose of this thesis.

## Introduction

It is apparent that business and society must co-exist in harmony - one depends on the other as the former inevitably gets involved with the communities in which it operates and the latter continues to demand a risk-free environment. As Harries (1999) rightly purports, the business of business is to serve society and meet the needs of society. Successful strategic thinking necessitates the provision of efficient business processes whilst using key technologies in order to create wealth and ensure a better quality of life, firstly for those working within the organisation and, secondly, for society at large. In the new economy, Hagan & Moon (2001) stress that business models must incorporate accountability which would involve a wider ethical dimension with which businesses must grapple. The author concurs with this view because the consequent impact could be a greater risk of ethical conflict that can damage an organisation reputationally and, subsequently, economically.

How to be commercially successful in a highly competitive international arena, while at the same time balancing the ethical and environmental responsibilities, is a fundamental issue facing every business today. This situation is being acutely magnified because of the rapid pace of change through technological advancement, the globalisation syndrome, the rise in corporate scandals, the societal perception of unethical behaviour by organisations as well as the growing distrust of corporate activity. As Weiser & Zadek (2001) rightly state, persuading business to address social challenges does work; they identify three fundamental drivers : pressure (a response to external forces such as regulation and advocacy groups), values (the core beliefs in the company) and strategy (enhancement of an organisation's long-term goals). Carmichael & Drummond (1989) appropriately foresaw this view by indicating that individual responsibility should

equate to corporate responsibility within an ethical framework. It seems that this has not always previously been a major consideration for the business case. As Lord Thurlow [1731-1806] proclaimed, corporations have neither bodies to be punished, nor souls to be condemned; they therefore do as they like. In the 'new' economy, the bottom line is changing, increasing the emphasis on corporate responsibility and sustainable development.

It is firmly believed that there should be a bedrock of good ethical behaviour in every business. Hence, morality and responsibility should be linked to management decision-making processes to ensure that questions, such as what to do? and who is affected?, may be answered in order to alleviate today's problems that often emanate from yesterday's solutions - prevention is better than cure. It is often the trigger event that ignites ethical behaviour and encourages organisations to have moral scruples. Nash (1990) suggests that there are two types of problems in business ethics : Type A (the acute dilemma) relates to situations where an individual does not know what is the right or wrong thing to do, whilst Type B (the acute rationalisation) refers to those where the individual knows what is right but fails to do it. One must agree that there are no simple rules in dealing with ethical dilemmas. Good intentions aside, the aim for the decision-maker is to foresee the consequent impact of decisions made upon the various parties with which the organisation has significant relationship and on which it impacts, that is the stakeholders.

> *"Ultimately, it's not about the money we make, it's about the journey we take"*
> **Charles Wang**

That is why ethical behaviour has, today, become a key determinant of public perception of business. However, it should not be seen as a 'veneer' but should be inculcated in the organisation's structure by building systems and creating a moral corporate culture. In this arena, a whole new concept has come into the language of business, namely 'corporate social responsibility' and 'corporate citizenship'. Both are clearly defined by

Sadler (2002) where the former relates to the obligations towards society that business organisations are expected to acknowledge and to reflect in their actions and the latter refers to the process by which a business acts to fulfil its responsibilities to society. Holliday *et al* (2002) report Julio Moura, CEO of GrupoNueva, Costa Rica, as stating that : "As a company, we are part of this society; we have a certain privilege; we are educated; we have access to resources, and we have been entrusted with those resources, so we have also responsibility to do something good, to make the community around us prosper" (p.103). This view reveals the very essence of an inclusive and civilised business and should be vigorously welcomed.

## Aim of the Research

It will be evident that the thrust of the research has evolved to focus, in particular, on the relationship between business performance and corporate social responsibility, showing how organisations can improve their strategic management decision-making. The aim of the research is to illustrate that this should be accomplished through the linking of ethical dimensions to business performance and strategy as well as the provision of means by which this can be attained. This would embrace the challenges encountered to achieve a 'shared vision' and 'common values', as well as be involved with, and being accountable to, stakeholders. This reasoning, it is felt, clearly threads through the eleven presented ethics-related refereed journal articles in Table 1. This Table provides these in a chronological order, so referenced in the text hereafter as Article 1, Article 2, and so on. Also furnished within the Table are the key features akin to each article for ease of reference.

The research objectives that emanate from the published articles are four-fold :

(1) to furnish an insight in understanding business situations through the encouragement of stakeholder involvement, thus providing a pragmatic means of raising awareness of related ethical issues

**Table 1.** ***Journal Articles Presented***

| | Journal Article | Journal Details | Key Features |
|---|---|---|---|
| 1. | IS IT ETHICAL TO COMPETE ON ETHICS?<br>A. Stainer as co-author | *Business Ethics - A European Review*<br>Vol.4, No.4, ISSN 0962-8770<br>pp.219-224, 1995 | • Competitive dimensions of business<br>• Ethical performance as a competitive advantage tool |
| 2. | PRODUCTIVITY, QUALITY AND ETHICS - A EUROPEAN VIEWPOINT<br>A. Stainer as co-author<br>**Received a 1997 Literati Club Award for Excellence** | *European Business Review*<br>Vol.95, No.6, ISSN 0955-534X<br>pp.3-11, 1995 | • Productivity, quality and ethics in context and practice<br>• European survey conducted into their interrelationship |
| 3. | ENVIRONMENT, TECHNOLOGY AND CORPORATE RESPONSIBILITY<br>A. Stainer & A. Ghobadian as co-authors | *International Journal of Environment and Pollution*<br>Vol.6, No.2/3, ISSN 0957-4352<br>pp.149-159, 1996 | • Technological development and environmental responsibility in their management context<br>• Related guidelines presented for effective codes of practice |
| 4. | PRODUCTIVITY AND PERFORMANCE - A VALUE-BASED APPROACH<br>A. Stainer as co-author | *Journal of Applied Management Studies*<br>Vol.5, No.1, ISSN 1360-0796<br>pp.5-16, 1996 | • Performance, productivity and ethics in context<br>• Their relationship to stakeholder value<br>• Values Index for Business Excellence |

**Table 1.** ***Journal Articles Presented*** (continued)

| | Journal Article | Journal Details | Key Features |
|---|---|---|---|
| 5. | ETHICAL DIMENSIONS OF RE-ENGINEERING<br>A. Stainer as co-author | *Journal of Strategic Change*<br>Vol.6, No.6, ISSN 1086-1718<br>pp.357-365, 1997 | • Re-engineering examined from a human and moral perspective<br>• A stakeholder value-based management approach advocated as guiding change |
| 6. | THE ETHICS OF TAX PLANNING<br>A. Stainer & A. Segal as co-authors | *Business Ethics - A European Review*<br>Vol.6, No.4, ISSN 0962-8770<br>pp.213-219, 1997 | • Tax planning in context<br>• The related ethical dimensions<br>• Drive to take a socially responsible attitude |
| 7. | ETHICAL DIMENSIONS OF ENVIRONMENTAL MANAGEMENT<br>A. Stainer as co-author<br>**Received the 1998 Literati Club Best Paper Award** | *European Business Review*<br>Vol.97, No.5, ISSN 0955-534X<br>pp.224-230, 1997 | • Environmental management in context<br>• Ethical and stakeholder approaches<br>• Competitive advantage and environmental excellence via ethical corporate culture |
| 8. | THE UK FOOD SUPPLY CHAIN - AN ETHICAL PERSPECTIVE<br>A. Stainer & A. Gully as co-authors | *Business Ethics - A European Review*<br>Vol.7, No.4, ISSN 0962-8770<br>pp.205-211, 1998 | • UK food supply chain in context<br>• Ethical approach balancing profitability, welfare of life and conservation of the environment |

**Table 1.** ***Journal Articles Presented*** (continued)

| | Journal Article | Journal Details | Key Features |
|---|---|---|---|
| 9. | BUSINESS PERFORMANCE - A STAKEHOLDER APPROACH<br>A. Stainer as co-author | *International Journal of Business Performance Management*<br>Vol.1, No.1, ISSN 1368-4892<br>pp.2-12, 1998 | • Integration of business and stakeholder values with performance measurement and management<br>• Value to the Business Index based on major stakeholder satisfaction metrics |
| 10. | ETHICS AND PERFORMANCE MANAGEMENT<br>A. Stainer & A. Gully as co-authors | *International Journal of Technology Management*<br>Vol.17, No.7/8, ISSN 0267-5730<br>pp.776-785, 1999 | • Business performance in context<br>• Ethics, stakeholders and values<br>• A value-based framework depicting high performance ingredients |
| 11. | EMPOWERMENT AND STRATEGIC CHANGE - AN ETHICAL PERSPECTIVE<br>A. Stainer as co-author | *Journal of Strategic Change*<br>Vol.9, No.5, ISSN 1086-1718<br>pp.287-296, 2000 | • Empowerment and strategy in context<br>• Related ethical and value-based dimensions<br>• Performance improvement allied to stakeholder engagement |

(2) through investigation of ethical theories, to underline the relevance of incorporating, as a wider approach, non-financial dimensions of business and, thus, adopt a way of approaching practical management decision-making

(3) to illustrate practical mechanisms which will give managers the opportunity, individually, to alter their behaviour, thus promoting the concept that business and society ought to move from the 'me-ism' to the 'us-ism' approach for a better quality of life outcomes

(4) to provide a cross-sectoral richness and to elucidate on how this all-encompassing thinking can be applied in a range of business areas with their associated challenges, especially when affiliated to strategic management

As maintained by Boone & Kurtz (1992), management ethics are the moral premise on which executive decisions are made. It would appear that the duty of any organisation is to behave morally, honestly and with integrity and where ethics should become more of a fundamental purpose rather than just an 'add-on' phenomenon. Cannon (2000) precisely propounds that the economic circumstances of the twenty-first century require a fundamentally different way of doing business by linking corporate competitiveness with corporate responsibility. In short, it is intended that the overall direction of the research is to supply both evidence of this stance as well as furnish the potential means to achieve it.

## Methodology

Agreeing with Smith (1999), living and breathing the values, inherent in a sound and responsible social policy, undoubtedly contribute to a company achieving a reputation which can be sustained and trusted. Handy (1998) underpins this view when he states that a successful business is one that continues to add value for ever. As such, the author has furnished substantive approaches that would aid in the translation of such broad-brushed 'value' philosophies into practical realities, displaying relative depth and diversity. The author also supports the argument made by Clyman (1997) that it is often believed that quantitative methods are insufficient to explore fully the qualitative elements of important decisions. This is particularly salient where there is concern for such ethical considerations as individual rights, the interests of multiple stakeholders

and non-financial societal issues. Thus, as Thor (1994) precisely advocates, a family of metrics must be developed that, together, would present a comprehensive view of organisational results but, individually, also provide diagnostic merit. These should be a combination of traditional measures, such as productivity, quality and customer satisfaction, to be allied to those more *avant-garde*, such as societal, ethical and environmental matters.

Methodologies of business ethics research, as far as Weaver & Trevino (1997) are concerned, comprise the variety and justification of methods by which such research is undertaken; conventionally, it is divided into two approaches : descriptive and normative. The former displays a more pragmatic approach to issues and is less prone to take a critical stance towards the established norms and goals of business whilst the latter focuses on what 'ought' to be. It is felt that there must be a move from the *laissez faire* 'so what' phenomenon. The author's methodology combines this normative approach with inductive research, which is based on observation and networking, knowledge and expertise of co-authors as well as analysis of existing literature.

> *"I must create a system or be enslaved by another man's"*
> **William Blake**

As an overture, in many of the articles, a basic schema for the business process is formulated and shown in Figure 1. It is the outcomes, as downstream from the outputs, that the author concentrates upon in the research as it is these which are the ultimate result of performance and appertain to the quality of life.

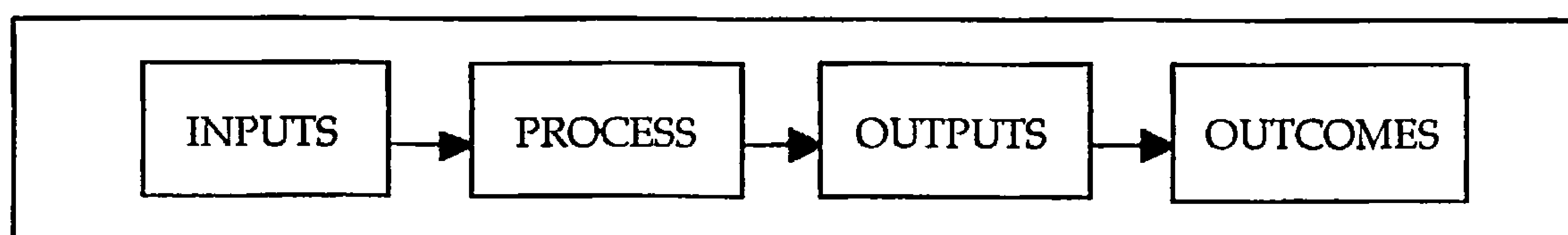


Figure 1. *A Schema for the Business Process*

In each instance, this basic premise is geared to the topic area under discussion. It has been applied in differing spheres and aspects of business : competition analysis (Article 1), environment, technology and corporate responsibility (Article 3), productivity and performance measurement and management (Article 4), environmental management (Article 7), stakeholder approaches to business performance (Article 9) and performance management (Article 10).

Subsequently, new paradigms are proposed rather than tested and are duly supported, in the main, by secondary data. The major objective is to concentrate on driving the 'ethical' agenda forward in both academic and practical terms. This heuristic approach has prompted the published research to develop the following, suggested to aid in contemporary business decision-making :

FRAMEWORKS :

- Values Index for Business Excellence (Article 4)
- Value to the Business Index (Article 9)
- Values to Stakeholders Index (Article 10)

MODELS :

- to present competitiveness in relation to its inter-acting elements (Article 1)
- to reveal ethical issues relating to both re-engineering (Article 5) and empowerment (Article 11)
- to relate to the impact on the constituent organisations and society for the UK food supply chain (Article 8)
- to show how business responsibility and society expectation ought to match (Article 8)
- to illustrate the impact of empowerment on the organisation and the employee (Article 11)

GUIDELINES and CRITERIA - for such diverse areas as :

- competition analysis (Article 1)
- productivity and quality through the conduct of a survey in the United Kingdom, France and Germany (Article 2)
- environment and technology (Article 3)

- re-engineering (Article 5)
- tax planning (Article 6)
- environmental management (Article 7)
- food supply chain (Article 8)
- empowerment (Article 11)

These are pragmatically-oriented to deal with the 'important' aspects of business ethics, placing them in a relevant economic and socially responsible perspective. Measurement indicators would provide a strategic focus so that everyone in the organisation can understand and work towards the same objectives and goals. Properly used, they could formulate performance direction and, hence, new approaches and solutions could be introduced to either remedy or improve situations. It is important to realise that, whether a framework to be employed or a measurement to be carried out, there must be effectiveness in its application and monitoring. However, no methodology is perfect, especially in such volatile and controversial facets of the conduct of business within a multi-cultural global environment. Measurements are both the foundation of good management practice and a performance cycle; they should be followed by evaluation, planning and improvement. Needless to say, each organisation would adapt according to its own stakeholder demands, strategic needs and business environment. Such metrics are only a thermometer, not a panacea.

Evolving as a significant patchwork pattern, it is maintained that the proposed broad spectrum of application, through exploration and an integrative methodology, contributes to the coherence of this submission. It is particularly pertinent to the domain of business ethics, especially in relation to corporate performance and strategy; this is because they are, and remain to be, a complicated and challenging topic of study. As can be seen, the research drive and methodologies propounded, through a diagnostic approach, deliver not only comprehensive but also highly practical advice on selecting and managing performance techniques. Deriving from the combined content of the refereed journal articles, four features sprout as being core to the analysis and

discussion. They are also demonstrated to be the foundation of creating measures of success for the high-performing socially responsible organisation. Figure 2 illustrates these core features, as well as their interrelationship.

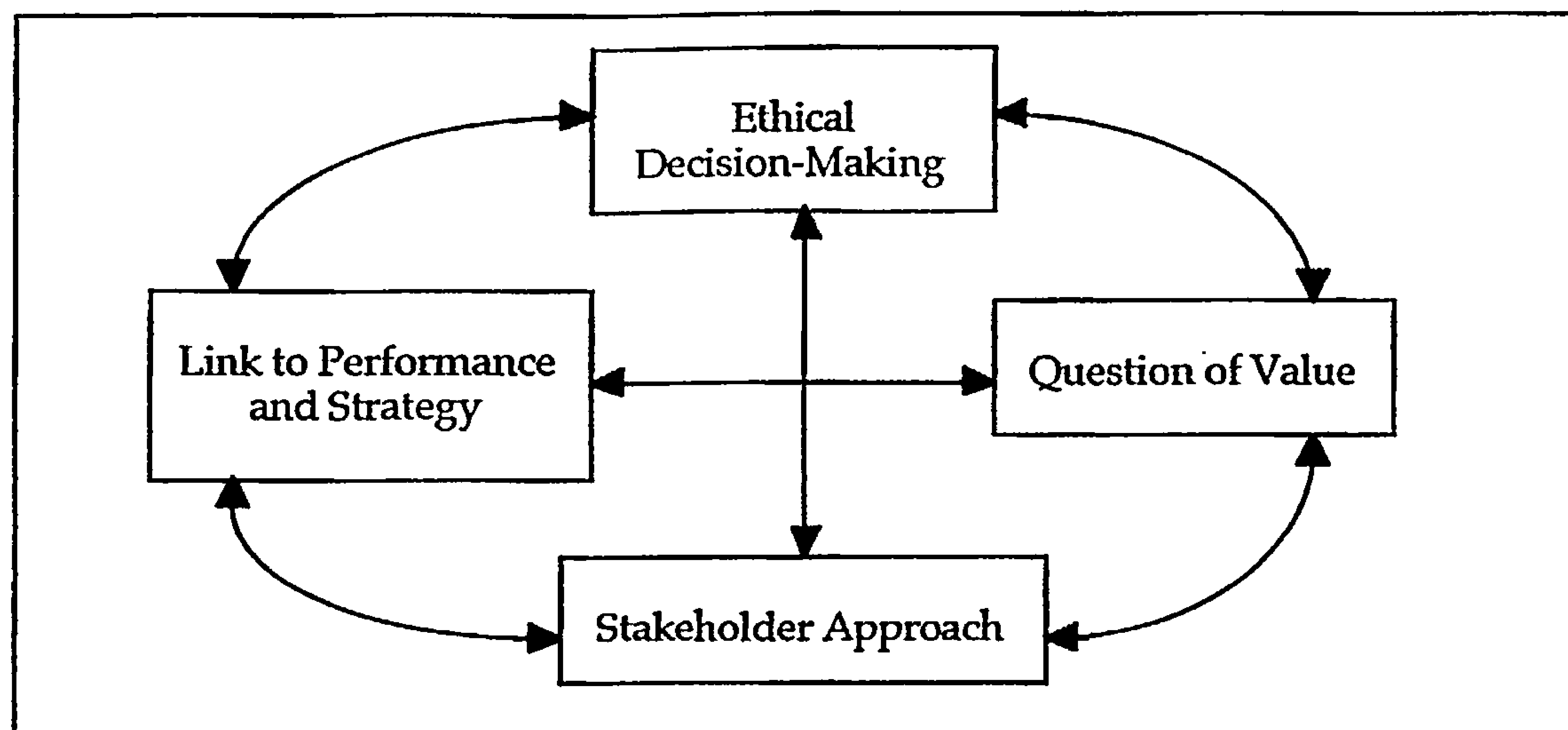


Figure 2. *Core Features of the Research and Their Interrelationships*

Nine of the eleven articles presented relate, implicitly or explicitly, to these four core features. The two other articles are an exception. Article 2, because of its survey nature, focuses on the interrelationship between productivity, quality and ethics and does not encompass 'value' *per se*. Article 6, investigating the ethics of the specialist topic of tax planning, is relatively 'free standing'; impact on performance and strategy and relationship to 'value' are perceived as peripheral.

As organisations do not work in isolation and are embedded in communities, there is the definite urgency for them to find appropriate ways of improving their decision-making process. This should be underpinned through frameworks and procedures that allow logical and relevant measurement and analysis. As an overview, the methodology put forward, in the main, concurs with what Creelman (1996) propounds, that is that the key is to discover how human, organisational and customer intellectual assets can be balanced so that they can combine to create value.

As this thesis is by publication, the author has re-visited the state of the art as well as synthesised and critically appraised the existing knowledge. As such, the research seeks to build upon this foundation by capturing process, meaning and understanding in the arena of corporate ethical decision-making. It is believed that its 'qualitative' facets, welded to 'quantitative' ones, offer findings and opinions that may influence not only policies but also behaviour and attitude in the work environment for the better.

Like most methodologies, this one is no exception and encompasses limitations. Primarily, these are due to the subjective - yet innovative - and, hence, the qualitative nature of part of the inputs within the frameworks provided (Articles 4, 9 and 10) and the opinion-based questionnaire (Article 2). It is felt, as Galilei Galileo [1564-1642] stated, to "count what is countable, measure what is measurable, and what is not measurable make measurable". As can be seen, its delimitation is that the studies are well focused.

## Ethical Decision-Making

Ethical problems in business are as old as business itself. The Code of Hammurabi, as reported by Donaldson & Werhane (1988), was written over two thousand years before Christ; it records the fact that Mesopotamian rulers attempted to legislate honest prices from local merchants by instituting wage and price controls. As detailed by Gensler (1998), in Matthew 7:12, Jesus gave the golden rule of "Treat others as you want to be treated" as the summary of the Jewish tradition. Rabbi Hillel had earlier said much the same thing; before then, Confucius, China's most famous guru, philosopher and political theorist, had used this rule to summarise his teachings. All major religions and many non-religious thinkers perceive that rule as being of central ethical importance. All this suggests that the rule may be an important moral truth, well suited to be a standard to which different cultures could appeal in trying to resolve conflicts. With globalisation, it seems, more and more, that there is a need for such a common principle.

Moreover, in Islam, the notion of 'tawhid' or unity refers to oneness of all existence; this relates to being just, promote good and eliminate evil. Indeed, religious traditions provide a foundation for ethics in business, applying moral concepts to business, family and personal life as well as government. In relation to the latter, the other side of the coin is that individuals and organisations themselves ought to abide by such principles. In relation to tax planning, for instance, as pointed out in Article 6, 'evasion' should not be part of their vocabulary; regarding 'avoidance', though legal, there should still exist a moral premise.

Over time, several philosophical theories have developed. As Ferrell & Fraedrich (1997) state, there are many moral philosophies and each one is complex. For the purpose of this research, basic definitions on those potentially focusing on the business sphere include:

| | |
|---|---|
| Consequentialism or Teleology | a view by which the evaluation of acceptability of an action is determined in relation to the consequences the action is likely to have |
| Deontology | literally 'the science of duty' taken to mean as the approach by which reference to some external set of beliefs or standards provides a basis for appraising the acceptability of an action |
| Utilitarianism | a form of consequentialism usually defined in terms of the dictum 'the greatest good for the greatest number' |
| Egoism | where the act is selfish, that is in the interest of the individual, the manager or the organisation |
| Relativism | a view which acknowledges that people have different views and different bases from which to justify a decision as right or wrong |
| Absolutism | where an action is unacceptable universally |

Such theories or schools of thought, according to Boatright (2000), form a basis for beliefs about moral obligations, rights and justice. However, it must be understood that there is much disagreement between them in their content and in the results of their application. Differences should not lead the decision-maker to despair of resolving business ethical issues or to conclude that one resolution is as good as, or better than,

another. With modernist ethics, as viewed by Griffin (2002), there must be individual thought apart from action. What is 'important', in practical business situations, is the underlying knowledge of such philosophies that enriches the thought process and, hence, improve decision-making. As the author heartily asserts, the best way forward is to integrate such philosophies and, subsequently, not only analyse to the full each issue for its own merit but also develop thorough, powerful and complete arguments for what is to be considered as the 'correct judgment'.

Both Pincoffs (1986) and May (1987) stress that ethical and moral principles are not foundational in any sense of the word and argue that such principles are abstractions that result from relationships. They declare that, as relationships deteriorate, the ethical principles no longer become enforceable. Though there is some truth in such an argument, the fact that individuals behave unethically should not deter others from acting ethically by abiding to philosophies. Lewis (1989) selects a variety of principles of ethical conduct, such as Carr's conventionalist ethic, Machiavelli's means-end ethic, Nietzsche/Marx might-equals-right ethic and Smith's market ethic; in his words, the latter relates to taking selfish actions and be motivated by personal gains in business dealings.

Looking further into Adam Smith's writings in the *Wealth of Nations*, 1776, these have significantly impacted on business attitudes. His famous 'invisible hand' argument states that, provided there is competition to satisfy customer wants, then the common good is best served by the pursuit of individual self-interest; that way human welfare will be maximised even though not intended (Article 1). Chonko (1995) rightly states that some critics of capitalism argue that the system itself encourages unethical behaviour, rewarding selfishness, dishonesty and greed; they even cast Adam Smith as a self-interested villain. However, Leach (2002) and Stapleford (2002) purport that Smith never offered unqualified blessing of the unconstrained pursuit of self-interest, as propagated in his earlier book, *The Theory of Moral Sentiments*, 1759. He clearly

recognised the failings of human nature and how, individually or corporately, people could engage in economic activities which may be detrimental to society; internal and external constraints in the pursuit of self-interest were necessary, including a degree of selfless behaviour. Kay (1993) believes that Smith's thoughts have been restated in many different if less striking ways in the subsequent two centuries, especially when attempting to account for the economic superiority of the free market system.

Do ethics have a place in the business world? Emphatically, yes, particularly in the arena of decision-making. When making a choice from two or more alternatives, this becomes a process of identifying or analysing a situation/problem, exploring the alternatives, selecting one through a weighting method, implementing it and evaluating the results. This managerial challenge is not simple but it could be compounded further when integrating ethical considerations. Article 2, based upon a European survey analysing the interrelationship between productivity, quality and ethics, highlights that the majority of organisations perceive that they have an ethical corporate culture and possess an ethical statement or code of ethics. It is, hence, important to deeply look at the way business decisions are made and the information on which they are based. In this regard, as far as French (1995) is concerned, managers must :

> *As a CEO, my period in office is five years. The Board of Directors view me as a new boy in the first year, one soon departing in my final year, thus the middle three years are a relatively too short a period to make a substantial impact on the 'business' case let alone the 'ethical' case*
> **Former CEO of a Public Company**

(1) display the ability to make rational decisions and to consider rational arguments regarding their intentions, in particular arguments about the ways to realise their long and short-term interests

(2) possess the facility to respond to events and ethical criticism by altering intentions and patterns of behaviour that are harmful or offensive to others or detrimental to their own interests

The process of moral decision-making, as stated by Monks & Minow (2001), requires, at a minimum, the capacity to : (1) use moral reasoning and (2) control not only overt

corporate acts but also the structure of policies and rules. On the other hand, Schermerhorn (1999) advocates that an awareness of judgmental heuristics, with their potential biases, can help improve decision-making competence, these being :

(a) the *availability heuristic* occurs when people use information that is readily available from memory as a basis for assessing a current event or situation; the related potential bias is that such information may be fallible and represent irrelevant factors

(b) the *representativeness heuristic* occurs when peole assess the likelihood of something occuring based on its similarity to a stereotyped set of occurences; the related potential bias is that the representative stereotype may fail to discriminate important unique factors relevant to the decision

(c) the *anchoring and adjustment heuristic* involves making decisions based on adjustments to a previous existing value or starting point; the related potential bias is that this may only generate an incremental movement

It is believed that such heuristics are generally inherent in individual behaviour. Yet, managers are rarely alert to the fact that they naturally utilise such mechanisms in their thought processes and they need to 'consciously' employ them in their decision-making. It seems that, whichever method is utilised to make a decision, Schermerhorn (1999) also duly advises that an "ethics double check" (p.63) ought to be carried out. This is increasingly necessary to ensure that the ethical aspects are properly considered in the complex and fast-paced contemporary environment. As such, engendering responsiveness is of paramount relevance.

Miller *et al* (1997) duly stress that the intrinsic nature of making decisions, especially those related to the larger and consequential ones which (a) govern the actions that take place, (b) shape the future direction of the organisation and (c) affect the lives of the people within it, is of vital significance to stakeholders. A prime example of such complexity in decision-making relates to the 1982 Tylenol case, recounted in Appendix IV. Johnson & Johnson (J&J) were faced with a major problem where the public was put at risk through the tampering and contaminating of their capsules. At that time their *Credo* stood them in good stead. However, about twenty years on, according to *The Economist* (2002), a Food & Drug Administration (FDA) advisory panel in the United

States decided to recommend that acetaminophen, the active ingredient in Tylenol, America's most popular non-prescription drug, should carry an explicit warning about potential liver damage. Even the possibility that a problem exists in acetaminophen came as a shock as J&J's advertising campaign boasted that 'nothing is safer' and their labels bear no reference to the potential harm in taking the drug - J&J were competing on their ethical stance (Article 1). It seems that, while J&J were quick to address the external threats to Tylenol in 1982 and, subsequently in 1986, they only grudgingly faced up to problems with acetaminophen itself. J&J may finally have to admit that Tylenol can be a dangerous drug.

Nixon *et al* (1991) strongly argue that making ethical decisions may be easy when the facts are clear and choices are perceived as 'right' or 'wrong'. Agreeing with them, of course it is a different story when the situation is controversial or is clouded by ambiguity, incomplete information, multiple points of view and conflicting responsibilities. In such scenarios, ethical decisions depend not only on the decision-making process itself but also on the experience, intelligence and integrity of the decision-maker. Problems arise, however, because of the subjectivity and definition of what is perceived to be the 'right' or 'wrong'. In this regard, Kidder (1996) proposes tests for wrongdoing : (1) the legal test, (2) the stench test, (3) the front page test and (4) the 'mom' test. Moreover, Kidder & Bloom (2001) propound the ethical analysis which refers to the 'right' versus 'right' syndrome; they present four types of such dilemmas : justice versus mercy, truth versus loyalty, individual versus community and short-term versus long-term. Parental and religious upbringing as well as philosophical theories may assist in the moral decision-making maze.

It seems that the 'bottom line' in this arena for the decision-maker is to accept responsibility and respect the stakeholders. In this regard, three articles are pertinent : Article 5, which investigates re-engineering, Article 8, which examines the UK food supply chain and Article 11 which explores empowerment. They all advocate that high business responsibility and high societal expectations must be matched in decision-

making. Certainly, decision-makers ought to have the moral courage to understand that it is imperative to go down the route of ethical thinking. According to Rushton (2000), business ethics relate to the application of moral principles in decision-making. His statement, however, is not without complications; as President Lyndon Johnson once said : "Doing the right thing is easy, it's knowing what the right thing is that is the difficult part".

## The Question of 'Value'

The word 'value' relates different things to different people and is often abused in relation to both its use and meaning. It can also be interpreted as a belief or moral principle that lies behind a company's culture, as correctly maintained by Campbell *et al* (1993). It is through such a corporate culture that the values of managers and employees alike are shaped and pointed in a common direction. Moreover, Jackson & Frigon (1996) appropriately believe that values should be basic truths that are virtually impossible to refute; they need to be identified and stated simply so that they can be easily understood and implemented. As a clear example, Murray (1997) reports that the chemicals company Eastman articulates its values as, almost, single words : honesty and integrity, fairness, trust, teamwork, diversity, employee well-being, citizenship and, lastly, winning attitude.

The salient question remains : Value to whom? Is it to the individual, to the business or to society as a whole? To attempt to answer this complexity, it is pertinent to revert to some definitions of 'value', a variety of which is set out below :

(1) 'Value in exchange', or price of a commodity or service, is the power it possesses of acquiring such a commodity or service, dependent basically on demand in relation to supply

(2) 'Value in use' is the total utility which is yielded by the product or service in question.

(3) 'Perceived value' relates to the performance characteristics, features and attributes, and any other aspects of goods and services for which a consumer is willing to give up resources

(4) 'Reputational value' relates to both stakeholders' loyalty towards the company and faith in its management to perform

(5) 'Core value' relates to a broad belief about what is or is not appropriate behaviour

(6) 'Shared value' is the cementing agent that holds together a business, both internally and externally, particularly in a changing environment

(7) 'Shareholder value' is value of shareholders' interest in the organisation where returns are directly related to financial results

(8) 'Stakeholder value' is value that embraces benefits to stakeholders, including shareholders, and reflects a set of principles serving society

The first two are economic metrics whilst the others, referred to in the presented articles, are potentially in the domain of mainstream business performance. In the context of this thesis, Article 1 refers to 'perceived value' to the customer, whilst the indices projected in Article 4 (Values Index for Business Excellence - VIBE), Article 9 (Value to the Business - ICES) and Article 10 (Value to Stakeholder Index - CREMS) are based on major stakeholder values. These three take into consideration a family of measures whether akin to perceived satisfaction or targeted outcomes. In most of the articles presented, the 'core value' and 'shared value' concepts underpin the approach to business success. Concurring with Sadler (2002), the choice of a purpose reflects the organisation's values and an exclusive focus on the bottom line 'shareholder value' reflects materialistic and economic criteria. Indeed, Kennedy (2000) proclaims that the 'end of shareholder value' is nigh but his evidence is aptly criticised by Sadler (2002) in that it is somewhat weak and most experts would feel that such an obituary notice is premature.

As regards 'reputational value', Schwartz & Gibb (1999) claim that corporate reputation is an asset because it is linked to brand equity, contributing to the value of the company

in ways that may not always be directly quantifiable. For some organisations, such as Mitsubishi, the brand name equates the company name. In a similar vein, Sherman (1999) believes that measuring reputation can provide a good barometer of the sustained value of a company. This intangible asset, the potential of which can make or break a business, may well constitute a more enduring source of competitive advantage than intellectual and physical property. Investing in its development and management is vital; conducting it more as a consultative and inclusive process, involving all areas of the business, may allow the company to be able to converse with its stakeholders in terms they understand, making it something to lean on especially in times of crisis. Highlighting the more elusive qualities of this corporate cachet, Holden *et al* (2001) conclude that, if it is said that society gives business a licence to operate, reputation and its management are about ensuring that such a licence will be renewed - this is indeed a truism.

The adoption of a wider inclusive purpose, one that embraces benefits to mankind and obligations to stakeholders, would reflect a set of humanitarian values and a desire to be of service to the community. Ideally, values ought to become the gauge to be measured against, the influencing factor on standards of behaviour as well as the nucleus of management action. The view expressed by the RSA Inquiry into Tomorrow's Company (1995) is that, if a company's value system is misunderstood or mismanaged, it produces the type of behavioural risks which can lead to corporate decline.

> *The way forward must be to tackle issues with more of a values-based, moral and ethical policy with the aim of zero tolerance*
> Director of a Public Company

It is not the promulgation of values that is 'important'; it is, in fact, the challenge to make them work over a sustained period of time that is crucial for the success, or failure, of the organisation. As reported by Webley (2001), United Biscuits, in the introduction to the Company's Statement on Ethics and Operating Principles, quite clearly articulate

that "Beliefs and values must always come before policies, practices and goals; the latter must be altered if they violate fundamental beliefs" (p.169). In a similar vein, Blanchard & O'Connor (1997) emphasise that the foundation of managing by values should evolve as : Be Ethical, Be Responsive and Be Profitable. Such a philosophy, as Buono & Nichols (1990) state in relation to the well-being of business and society, should require the adoption of a stakeholder model. This leaves room for a 'progressive' stance, aiming to deliver high business performance which is based on a triple bottom line approach. Elkington & Fennell (1998) demonstrate that such an agenda would require companies to focus, not simply on the economic value they add, but also on the environmental and social value they add or, indeed, destroy. Wyburd (1998) wisely poses the question : "How can a business strike a balance between being competitive and ethical?" (p.142) and, hence, opens the debate of value through values, that is gaining economic advancement through organisations articulating their own set of core values such as honesty, respect and trust; his own answer is a resounding 'yes'.

The real challenge ahead, as Stainer *et al* (2000) believe, is the way in which values are, firstly, utilised in the overall corporate strategy and, secondly, accepted by society. Article 9, which explores the stakeholder approach to business performance, puts forward this message across succinctly; organisations need to be *au courant* because the stakeholding keys will be responsible for the harvesting of economic and societal rewards, long-term prosperity and an enhanced reputation. To put it another way, as de Geus (1997) asserts, companies die because their managers focus on the economic activity of producing goods and services and they forget that their organisation's true nature is that of a community of humans. The organisation, its rules and structure may be crucial but the choice of outlook comes down to the question of values. Reinforcing this view, Fort (2001) states that the Kantian principle maintains that all human beings should be treated as ends, not means to ends. This is emphasised further by Bowie (1999); he eloquently specifies that the Kantian moral perspective stresses that the interests of all affected stakeholders should be considered in every decision taken.

## Why a Stakeholder Approach?

The term 'stakeholder' is not new; it was traced by Freeman (1984) to an internal memorandum at the Stanford Research Institute in 1963. Yet, Preston & Sapienza (1990) record this approach, as opposed to the term, back a further thirty years. Over time, successful organisations, such as the John Lewis Partnership and Cadbury's in the United Kingdom as well as Levi Strauss and IBM in the United States, recognise that they have inherent responsibilities to a range of stakeholders that go beyond mere compliance with the law. Through such a stance, they have also enhanced their shareholder value. The complex journey in this terrain is continuing and will be ever present in the pursuit of the twin peaks of business ethics and business excellence.

At a philosophical level, as Hutton (1997) and Jones (2001) report, it can be argued that a stakeholder economy requires a stakeholder society. Conversely, a stakeholder society could be the pre-requisite for a stakeholder economy, as propounded by Metcalfe (1998); he concentrates on this debate at a business level, discussing whether stakeholding is ethical, attainable or even appropriate to business corporations. It is felt that, in a corporate context, stakeholder theory implies that all stakeholders are entitled to consideration in some way similar to that given to the shareholders, even if this is limited to other major stakeholders, such as employees, customers and society. Whichever way the stakeholder approach is to be perceived, Ackerman & Alstott (1999) pertinently claim that the stakeholding transaction would encourage responsibility. However, when analysing corporate responsibilities, two questions come to mind : responsibility to whom? and what kind of responsibility? It is essential that the issue of responsibility must be one of reciprocity, whereby the business-to-stakeholder and stakeholder-to-business dialogue is to be founded on both mutual respect and trust. It is this synergetic concept of the business and stakeholder values that is paramount.

Looking from the point of view of the organisation, there is a strong case for the development of its 'core values' through promulgating aspirations as well as issuing a set of criteria and goals which would be acceptable by the major stakeholders. In this context, Frederick *et al* (1992) advocate that the guiding strategy of an organisation cannot be formulated without taking into account three vital areas of action :

1. to identify its stakeholders in order to safeguard their interests;
2. to analyse the dominant values of the organisation and of its key executives and stakeholders; and
3. to ascertain the major societal issues and how these might affect the organisation and stakeholders.

As such, it is apparent that it is in the business' interest to develop systems to manage itself in a way which is consistent with the expectations of its principal stakeholders - as well as to be seen to be doing so. Without doubt, as propounded by Wheeler & Sillanpää (1997), the challenge of embracing stakeholders is a key strategic issue for contemporary business. The response to such a challenge, whether implicitly or explicitly expressed, defines the very nature of the organisation. As far as McManus (2002) is concerned, there is really no reason to think that the conscientious and continuing practice of stakeholder management will conflict with conventional financial performance goals. He supports the principles of stakeholder management propagated by Clarkson (1995) which, in short, should relate to participation, communication, recognition, co-operation and monitoring as well as acknowledgment of potential conflicts and societal unacceptability, all to be taken into account within the decision-making processes. Conversely, Grundy (1997) believes that stakeholder analysis may invite as many questions as answers whilst Sir Gerald Elliot (1999), former Chairman of Christian Salvesen, stresses that it may be popular to argue that companies are answerable to a community of people rather than just the money-minded shareholders but can business

> *Increasingly, stakeholders want to know about the values of the companies behind brands and products and make their judgements according to those perceived values and how they are practised*
> **Director of a Research Organisation**

truly listen to so many conflicting voices? The author is convinced that the inclusive philosophy, taking into consideration stakeholder demands which need to be prioritised and weighted, is the inevitable pathway to take in the business environment of today (Articles 4, 9 and 10).

An analogy of the stakeholder concept could be seen as the varying perspectives of the eternal city Rome, the organisation, from its seven hills, the stakeholders. Though looking at the same scene, each stakeholder will have its own agenda with different priorities and different objectives. That is why, for the organisation, a balancing act is unavoidable as there will be occasions when such a balance may tip towards, or against, one stakeholder or another. Would one dominate? or should one dominate? This is not a 'beauty contest' and should not be treated so. Circumstance would dictate the emphasis and ranking given to each stakeholder; this would be very much dependent upon the nature of the organisation's business, the environment in which it operates, the ever-present challenge of change that occurs as well as the individual situation under consideration. As examples, Articles 3 and 7, which examine the area of environment - the 'silent' stakeholder, as described by Solomon (1994) - and its management, would advocate emphasis on the quality of life aspects on society whilst Articles 5 and 11, focusing on re-engineering and empowerment respectively, would perceive employees to be the 'lead' stakeholder.

The lack of application of the stakeholder approach can be vividly illustrated by the saga associated with the 'Prestige' tanker case in November 2002, recounted in Appendix V. In this scenario, it is evident that the owners paid scant regard to the major stakeholders: employees, customers, society and the environment. The short-termism of concentrating on the bottom line and ignoring the health and safety as well as environmental concerns have potentially created the world's biggest environmental disaster. History seems to repeat itself; ten previous such events occurred since the 'Torrey Canyon' in 1967 and what were the lessons learnt? Yet, the fact that millions of tons of oil are safely

transported each year should not be overlooked; it seems that regulatory mechanisms may be in place but governments and international bodies are neglecting to ensure that these are implemented or enforced. A disaster of such magnitude emphasises the importance of interlinking the environmental and technological aspects with the issue of corporate responsibility (Articles 3 and 7).

Recently, as Neely (1998) rightly claims, there has been a business performance revolution, generated by the objective of achieving sustainable business success in an ever-demanding global market place. Organisations should not be myopic in their strategic thinking and ought to respect the desires of their stakeholders. However, supporting Zadek (2001), it is not straight-forward to work with stakeholders in developing indicators that both mean something to them and effectively communicate the essence of that meaning to others; this pathway demands vision, leadership and commitment. Such a standpoint is taken seriously by such organisations as BT, Camelot and LE Group; they have built praise-worthy processes of stakeholder consultation, verification and publication within their agenda of corporate social responsibility. Therefore, is there a breakthrough? Summerfield (2001) reports on research carried out by the Institute of Directors that about 90% of respondents admit to try to devise policies which take into account all stakeholders.

Whatever the challenges, stakeholder values, or at least those pertaining to the major ones, based on expectations, need to be incorporated into the business performance scenario. This is because, inevitably, the purely economic model is no longer appropriate for the organisation of today and tomorrow. Thus, it is paramount that stakeholder values must be appreciated, taken into account as well as harnessed in the pursuit of continuous improved performance. Within the debate as to any business being perceived as an 'ethical agent', the arguments are passionate and rightly so. Monitoring the ethical temperature, decisions must be taken to reflect a long-term

strategic philosophy which incorporates a balancing act between stakeholder expectations and competitive advantage.

## The Link to Performance and Strategy

Performance management, as illustrated by Lynch & Cross (1995), can be perceived as a performance pyramid which, from its summit or corporate vision, is driven down through and across business units via an inter-linked network of performance measures that reflect both internal and external effectiveness. To manage performance, it needs to be measured and this is an activity that all organisations do, whether systematically, thoroughly or 'chaotically'. They measure to ascertain how well, or badly, they are doing and if they are meeting targets with the processes in place. Gentili *et al* (2002) propound that, as any calibration is complex, every business entity should employ its own performance measurement systems as a mean to (a) control critical performance parameters; (b) evaluate the state of company health; (c) ensure the strategy effectiveness and (d) use as a learning tool. However, this is only the starting point to plan for improvement and develop a strategic direction indicating how resources are to be employed. Often, issues arise as to whether the 'right' things are being measured in the 'right' way and whether there is commitment to, and communication of, the measurement techniques adopted. This is because 'measurement' is often in the eye of the beholder.

Through meaningful engagement with stakeholders who participate in sustaining the business through a series of exchanges, useful measures could emerge to develop non-financial performance metrics. Koller (1994) propounds that, in this arena, management must have a solid analytical understanding of which performance variables would drive the value of the company. The answer should entail the development of both quantitative, as well as qualitative, indicators to promote a viable integrated system of accountability and responsibility. This is because triple bottom line sustainable success

will need to be achieved through shared values and purpose rather than through a pure economic focus coupled to ethical indifference.

The phrase 'corporate social responsibility' can take on a new significance when it directly affects financial results. Hence, there is the need to convince organisations, whether large, medium or small, public or private, to behave in a socially-responsible manner. This can be achieved through the vehicle of relevant performance measurement and management, being continually monitored. This process is good for business, especially in the long-term. After all, performance measurement is best viewed as part of a broader activity within the business and its strategic philosophy. The main impetus would be that, to do so, would ensure that organisational activities would seek to increase positive impacts on stakeholders whilst remaining viable and competitive. However, it must be remembered that every key turns two ways; if such a stance is ignored by managers, this would be at their peril.

Non-financial measures have been emerging since the beginning of the last decade. Two pivotal models which embrace such metrics are propounded by Fitzgerald *et al* (1991) and Kaplan & Norton (1992). The former looks at performance measurement analysis as identifying the resultants of the effectiveness of a chosen strategy as well as the determinants of competitive success. The latter, a much heralded approach, relates to the balanced scorecard framework; it links four perspectives : financial, customer, internal business as well as innovation and learning. As far as Atkinson & Holden (2000) are concerned, fundamentally, the scorecard *per se* is not the answer for every business. They believe that what is important for the organisation is to distinguish the enablers from the results by looking at the bigger picture rather than focusing on key performance indicators. Such a methodology is found within the European Business Excellence Model, which is a refinement of the American Baldridge Index. However, the general development of such models has encouraged the debate to move forward, away from the short-term financial outlook to the strategic competitive outcomes. Although

these models appear to be a step in the right direction, in general, they still fall short of embracing a more poignant and focused stakeholder dimension.

In this context, the author has originated various frameworks to embrace corporate responsibility within organisational performance. As Elmark (1996) believes, a pre-requisite for the success of a value-based approach is that each business is actually able to identify its own set of values which, concurrently, supports operations. This is to be advanced through stakeholder dialogue in a multi-dimensional environment. Three innovative indices are formulated, based on value to the business and the stakeholders :

- **Article 4** reveals the development of an indicator of value in the form of a kinship-style index, termed as the Values Index for Business Excellence (VIBE), embracing customer satisfaction, market effectiveness, resource effectiveness, social effectiveness and workplace satisfaction. Each ingredient is to be weighted accordingly to its perceived priority by management. An organisation's weighting scale will, naturally, be dependent upon its characteristics, structure, size and culture.

- **Article 9** portrays an all-embracing index as Value to the Business to incorporate perceived satisfaction by the organisation's targeted major stakeholders. Illustratively, these can be Investors, Customers, Employees and Society (ICES), where investor satisfaction relates to achieving profitability and economic growth, customer satisfaction appertains to consistently meeting customer requirements, employee satisfaction reflects quality of work life and societal satisfaction is concerned with achieving ethical and environmental objectives.

- **Article 10** exhibits a Values to Stakeholder Index which brings together the salient dimensions involved in satisfying all major stakeholders (CREMS), where C relates to customer satisfaction (consistently meeting customer requirements), R resource effectiveness (achieving profitability and total productivity objectives), E employee satisfaction (improving quality of work life), M market effectiveness (achieving objectives in market share and position) and S social effectiveness (attaining objectives on ethical and environmental dimensions).

As an illustrative development and application of such frameworks, Stainer *et al* (2000) feature the metrics of customer satisfaction, employee satisfaction and societal satisfaction with total productivity, the latter seen as an important generator of stakeholder value. The index of Super Total Productivity (STP) is formulated and two examples are provided in Appendix VI.

Such control systems attempt to address the actionable steps that lead to a company's success. However, it is important to understand that they must be implemented within a well-developed acceptable overall framework which explains their interrelationships. Performance measurement should be designed to keep the focus constantly on the strategic plan and its development, associated with the overall direction of the organisation to meet and capitalise on the needs of the market place. It should also be allied to performance indicators that are required for the essential operations of the organisation. Ghobadian & O'Regan (2000) reveal that high performing companies, moreover, are required to produce metrics reflecting not only learning and growth but also organisational capability. The evolution of the latter can relate to competence and knowledge which would support the strategic development pathway from identification of a situation, through to the decision-making and subsequent implementation, illustrated in Figure 3 :

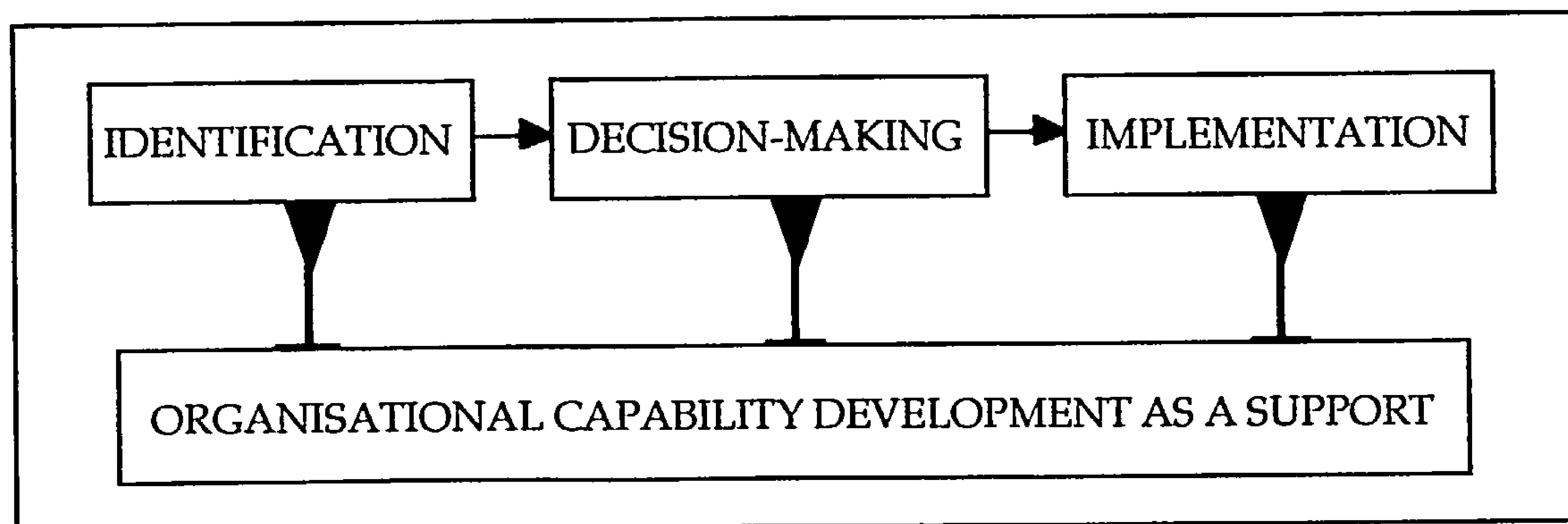


Figure 3. *A Schema for Strategic Development*

The long-term challenge for every organisation is driven by competition, a global economy as well as ever-increasing demands from investors and society. Hence, it may be of necessity for the company to go through the pain barrier of applying such concepts as downsizing, delayering or re-engineering. The latter is focused upon (Article 5), bringing to the fore that management must address the human side of the concept in order to generate sustainable growth. As demonstrated (Article 11), empowerment could, if skilfully implemented, become a powerful tool which would engender an

intrapreneurial ambience beyond that of delegation of activity. The formulated strategies would describe how objectives and goals are to be achieved by linking the various perspectives in terms of the business' own environment. In short, measurement is not an end in itself; this is because there is no benefit in assessment if it is not consistent with the business vision and strategy. It is those managerial decisions and actions that would determine the long-term health of the organisation. Looking ahead, Stainer *et al* (2000) proclaim that the way in which values are utilised in the over-all corporate strategy and accepted by society is fundamental in achieving business success. Through corporate governance, broadly defined as being concerned with those decisions made by senior management and their impact on stakeholder groups, to translate good intentions into accomplishment is paramount in linking performance to long range planning.

> *Profits should be a reflection not of corporate greed but a vote of confidence from society that what is offered by the firm is valued*
> **Konosuke Matsushita**

## Contribution to Knowledge

The author's contribution to knowledge primarily focuses on highlighting areas which have been, at the time, relatively neglected and, hence, unexplored. The research is aimed at accentuating the 'importance' of communicating and developing lateral thinking; that is to demonstrate that there must be a conscious need for practical theory in decision-making. The objective is to raise awareness of good business ethics and stimulate change in behaviour and attitude in corporate cultures adopting both a multi- and inter-disciplinary strategic approach.

Principally and in an integrated fashion, the proposed models, frameworks and guidelines produce the tools that assist in paving the way to coherent exemplary decision-making, thus limiting adverse impact on the company, in reputational terms, and on society as a whole. What is accentuated is the quality of life outcomes for not

only the major stakeholders but also for future generations. Attention is concentrated upon the triadic gain which relates to the inter-linking and the balancing of the economic, legal and ethical dimensions of business. As purported by Sir IainVallance (1997), Chairman of BT, business leaders must, by their actions as well as through their words, show employees, customers and indeed all stakeholders what their company stands for and what their values are. Therefore, it seems that to understand, measure and manage stakeholder values would ultimately transmit the message, through commitment and dialogue, that such inclusivity would herald contemporary business success. Critically, such a stance must be realistically tempered. As Mathur & Kenyon (1998) point out, it must be acknowledged that financial performance must be the ultimate yardstick of business strategy and that stakeholder objections to the primacy of that objective would affect the moral duties of managers, not those of the business. Because of the flexibility of the weighting system within the proposed frameworks (Articles 4, 9 and 10), both the arguments put forward can be competently addressed.

> *There are many ways of going forward, but only one way of standing still*
> **Franklin D. Roosevelt**

The author has advanced the understanding and thinking of this complex topic area of ethical decision-making through a stakeholder approach. Vividly demonstrated are the means by which corporate social responsibility is expressed as ethical behaviour of a business with the purpose of enhancing the social fabric of the wider community as well as advancing the economic bottom line. The challenges and dilemmas related to strategic change have also been confronted and analysed. With the synergetic collaboration with co-authors, the writer has exhibited authority and knowledge by supplying a coherent, relevant and functional route map for 'improved' business performance. This is aligned to an enlightened management philosophy, achieved through skillfully walking the tightrope between academic theory and business practice. The quality of the published work is evidenced through the author being a recipient of a

1997 Literati Club Award for Excellence (Article 2) and the 1998 Literati Club Best Paper Award (Article 7). In the context of the Chinese Proverb : "If you stop learning, you are dead", the author intends to continue to research and modestly contribute further to the pathway of knowledge in this all-important field of study.

## Conclusion

Business is not just a financial process (Article 1) but, with discreet moral leadership, there ought to exist a procedure by which to disseminate an ethical culture (Articles 2, 8 and 10). It has been clearly demonstrated in the research that both individual characteristics and organisational contexts are key for the understanding of ethics-related attitudes and behaviours. Practical theory is generated as it can assist the decision-maker to get to grips with complexity, narrow and define problems as well as develop mechanisms that produce an outlook with a fresh perspective. It also gives access to unexpected questions and ways of changing situations through the capacity of using moral reasoning in decision-making, especially when outcomes affect the wider community.

> *My ambition is to be made redundant. Because it is only then would I feel that I have fulfilled my job to the ultimate by establishing an inherent ethical corporate culture in the organisation*
> **CSR Manager of a Multi-National Organisation**

Conceptual frameworks and models for ethical decision-making have been developed to propose relationships and guide conduct. This can be achieved through (a) corporate commitment, (b) provision of robust but flexible processes to accommodate change, (c) dialogue in communicating values, whether internally or externally, and (d) the linking business performance to corporate responsibility. The research unveils that these four elements ought to be incorporated at all levels and that there is a definite synergy between business excellence and good ethical practice. It must be remembered that whenever questions arise, such as 'is it fair?' or 'is it right?', the decision-maker is entering a minefield of ethical dilemmas. This is particularly true when taking into

consideration core stakeholder values and, hence, corporate engagement is of essence to find ways of improving decisions, both operationally and strategically.

The inter-connectedness with society is paramount in that the mutual understanding of the viewpoints of both the stakeholder and the organisation creates empathy and kinship. This is particularly pertinent because, as Raven (1999) asserts, stakeholders can have an ownership stake, an economic stake and a social stake. However, their relative prominence for, and their influence on, the organisation should be balanced by the utilisation of meaningful performance indicators (Articles 4, 9 and 10). The research illuminates many pressing moral issues that neither organisations nor individuals can afford to ignore or find it useful to talk very little about. This is clearly exampled in competition (Article 1), re-engineering (Article 5), tax planning (Article 6), food supply chain (Article 8) empowerment (Article 11) and environment and technology (Articles 3 and 7). With regard to the latter, this is particularly poignant for gain in reputational terms through the setting of high environmental standards to be benchmarked against.

As Ruskin (2000) affirms : "what we think or what we believe is, in the end, of little consequence. The only thing of consequence is what we do" (p.4). This reasoning confirms that management decisions and consequent actions, structured on stakeholder values, efficaciously designed, measured and monitored, are the cardinal ingredients to advances in business performance. This is a challenge that must be confronted through 'efficient' behaviour, that is : 'think before you act'. However, there is, today, much 'stakeholder scepticism' as those propounded by Henderson (2001) and Simms (2002). The former claims that the fad for corporate social responsibility is doing real harm; his view is not to laugh at it or tolerate it but to recognise it for the danger it is and oppose it as it poisons opinions against market capitalism and promotes policies that are directly welfare-reducing. The latter believes that companies may be fooling the public, they may be fooling investors, they may even be fooling themselves, but their deception, in relation to corporate social responsibility - perceived as corporate irresponsibility - may

actually cost them. Moreover, Donaldson (1992) stresses that the 'ethical firm' is alleged by some not to exist, even to be an impossibility.

Whilst such writers and researchers have their own 'political' agenda, the author has tried to maintain an 'open mind' through the gathering and analysis of a wealth of ideas and suggestions. Her mission is to send the 'right' signals for ethical decision-making by adopting a neutral approach; this embraces the concepts of displaying respect, empathy, tolerance and sensitivity, without the imposition of one's own ethics. It can be argued that 'total' integrity is unachievable but the decision-maker need not morally 'stutter' at being committed to corporate social responsibility and dialogue with major stakeholders (Article 9). The author is realistic and appreciates the intricacies, difficulties and limitations of the pathways provided. She has advanced and enhanced the debate and, through the research submitted, has made a small but significant contribution to knowledge by providing specific avenues for ethical management decision-making. The philosophy is founded on common sense as well as a pragmatic and relevant methodology. A stakeholder values scenario, linked to performance management and strategy and based on weighted priorities (Articles 4, 9 and 10), furnishes a logical and sound reply to the 'sceptics'.

In the field of corporate social responsibility, a valid criticism of this research and certainly of that produced by others, is whether the advocated thinking can be applied to Small and Medium Enterprises (SMEs) rather than just to the large organisations and whether it can be translated globally. In relation to the former, Haywood (2002) emphasises that small and medium businesses are just as engaged with their local communities as larger ones; the difference lies in their use of the media to publicise their activities and allow the biggest UK businesses to hog the limelight. Such a stance of 'minimal bragging' (Article 1) can be demonstrated by the exemplary case of Bovince Ltd. featured in Appendix VII. They are a small family business whose philosophy is not only to be the best known screen process printers in the industry but to also create

tomorrow's company today. This vision is based upon sustainable and practical partnerships between business and society, leading to being granted the Queen's Award for Sustainable Development in 2001. *A propos* raising awareness of ethics across borders, Kidder & Bloom (2001) correctly state that there is a need, for a global future, to develop a language that allows business and society to address the tough decisions 'clearly'. This is because local cultural sensitivities are often neglected by multinationals and, as Guptara (1998) intimates, ethical differences across cultures are real. As Fisher & Lovell (2003) rightly affirm, many of the ethical problems of international business have to be dealt with by people on the ground who stand on the thresholds that separate ethical cultures; it is their ethical reflections and moral agency that determine the behaviour of the global organisation.

It seems, therefore, that businesses, whether in the public or private sector, that wish to thrive in the next decade and beyond, must look for new perspectives. They ought to recognise that a shift in ethics has occurred and that value-based management has become essential. The two vital attributes, being integrity and mutual trust, will drive forward the inclusive agenda (Article 5). Managers should concentrate on interlinking the complex facets of decision-making in an ethical manner in the pursuit of business excellence. They ought to ensure also that they are performing their tasks in a professional and transparent way in order not to tarnish their corporate reputation and principles.

In the field of business ethics, the perception is 'damn if you do and damn if you don't'. This is because ethical deliberations of what should or should not be done are millenia old. However, what is new and manifest is that business people are trying to contribute to the debate which itself may not provide final answers but will enhance more consciousness. Concurring with Holloman (1991), call it ethics, call it morality, call it the Golden Rule : if we can learn to practise it ourselves and encourage others do likewise, then justice, fair play and openess will become core parts of business relationships. As

expressed by McIntosh *et al* (2003) who have encompassed the wisdom of the United Nations Compact Initiative, "in the shifting social and political geography of the 21st century, companies focusing on their relationship with society are looking for guidance" (p.89). This is what the author has been striving to attain throughout this research and her academic output : that is to provide discussion and direction on corporate responsibility and management decision-making.

## Future Research

The publications presented within this thesis have been written over five years, 1995-2000. It seems, at least in the United Kingdom, that at the beginning of that period little was in the public domain on this area of study. Indeed, few courses or modules were being taught at British universities. By the end of that period, business ethics and corporate social responsibility have been placed on the 'hot' list of social phenomena, mainly because of the corporate scandals that arose through greed, ambition and self-interest.

As far as the author is concerned, there is the potential to apply as well as improve the proposed frameworks and models though it must be realised that these have helped lay a foundation for strategic management control. Future work in the area of interaction between business performance and corporate social responsibility would be led by the desire to analyse and report practical applications of the models and frameworks. This is especially true when taking into account that business situations are continually changing and, hence, new ideas and concepts become necessary. Innovative metrics could also be developed to aid, not only management decision-makers, but also regulators and government. Further research is essential to convince individuals that behaviour in a socially responsible manner is good for business, especially for the longer term.

The author is comfortable in conducting research of a multi-disciplinary nature and is avid to produce more quality articles. The areas of interest include corporate reputation and risk management, corporate governance and trust, ethical issues in click marketing, the impact of religious belief on corporate decision making, ethical dimensions of brand loyalty, a comparative study relating to attitude to ethical business between small and medium enterprises and multi-nationals, as well as the impact of gender and race diversity in the workplace. The enthusiasm to write on business and its 'soul' seems endless. It is strongly felt that 'ethics' will increasingly continue to be a major business priority.

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# APPENDICES

**Appendix I**
Public Output from Research and Scholarly Activity

**Appendix II**
Copies of Journal Articles Presented

**Appendix III**
Statements of Contribution from Co-Authors

**Appendix IV**
The Tylenol Case

**Appendix V**
The 'Prestige' Tanker Case

**Appendix VI**
The Super Total Productivity Index
with Examples

**Appendix VII**
Bovince Ltd.

APPENDIX I

## Public Output from Research and Scholarly Activity

*Published Refereed Articles in Academic Journals*

IS IT ETHICAL TO COMPETE ON ETHICS?
*Business Ethics - A European Review*
Vol.4, No.4, October 1995, pp.219-224, ISSN 0962-8770
With A. Stainer as co-author

YOUNG PEOPLE'S RISK PERCEPTION OF NUCLEAR POWER
- A EUROPEAN VIEWPOINT
*International Journal of Global Energy Issues*
Vol.7, No.5/6, December 1995, pp.261-270, ISSN 0954-7118
With A. Stainer as co-author

PRODUCTIVITY, QUALITY AND ETHICS - A EUROPEAN VIEWPOINT
*European Business Review*
Vol.95, No.6, 1995, pp.3-11, ISSN 0955-534X
With A. Stainer as co-author
Received a 1997 Literati Club Award for Excellence

ENVIRONMENT, TECHNOLOGY AND CORPORATE RESPONSIBILITY
*International Journal of Environment & Pollution*
Vol.6, No.2/3, 1996, pp.149-159, ISSN 0957-4352
With A. Ghobadian & A. Stainer as co-authors

PRODUCTIVITY AND PERFORMANCE - A VALUE-BASED APPROACH
*Journal of Applied Management Studies*
Vol.5, No.1, 1996, pp.5-16, ISSN 1360-0796
With A. Stainer as co-author

STRATEGIC INVESTMENT APPRAISAL FOR
ADVANCED MANUFACTURING TECHNOLOGY
*International Journal of Materials & Product Technology*
Vol.11, No.1/2, 1996, pp.76-88, ISSN 0268-1900
With A. Stainer, A. Ghobadian & J. Liu as co-authors

ETHICAL DIMENSIONS OF RE-ENGINEERING
*Journal of Strategic Change*
Vol.6, No.6, 1997, pp.357-365, ISSN 1086-1718
With A. Stainer as co-author

*Published Refereed Articles in Academic Journals* (continued)

PRODUCTIVITY AND PERFORMANCE DIMENSIONS
OF CORPORATE COMMUNICATIONS STRATEGY
*Corporate Communications : An International Journal*
Vol.2, No.2, 1997, pp.70-75, ISSN 1356-3289
With A. Stainer as co-author

THE ETHICS OF TAX PLANNING
*Business Ethics - A European Review*
Vol.6, No.4, 1997, pp.213-219, ISSN 0962-8770
With A. Stainer & A. Segal as co-authors

ETHICAL DIMENSIONS OF ENVIRONMENTAL MANAGEMENT
*European Business Review*
Vol.97, No.5, 1997, pp.224-230, ISSN 0955-534X
With A. Stainer as co-author
Received the 1998 Literati Club Best Paper Award

EMPLOYEE ORIENTATION - THE JAPANESE APPROACH
*Employee Relations - The International Journal*
Vol.19, No.5, 1997/98, pp.443-456, ISSN 0142-5455
With A. Stainer & M. Mestre as co-authors

STRATEGIC CHANGE IN PUBLIC SERVICES
- A PRODUCTIVITY AND PERFORMANCE PERSPECTIVE
*Journal of Strategic Change*
Vol.7, No.2, 1998, pp.111-119, ISSN 1086-1718
With A. Stainer as co-author

THE UK FOOD SUPPLY CHAIN - AN ETHICAL PERSPECTIVE
*Business Ethics - A European Review*
Vol.7, No.4, October 1998, pp.205-211, ISSN 0962-8770
With A. Stainer & A. Gully as co-authors

BUSINESS PERFORMANCE - A STAKEHOLDER APPROACH
*International Journal of Business Performance Management*
Vol.1, No.1, October 1998, pp.2-12, ISSN 1368-4892
With A. Stainer as co-author

ETHICS AND PERFORMANCE MANAGEMENT
*International Journal of Technology Management*
Vol.17, No.7/8, 1999, pp.776-785, ISSN 0267-5730
With A. Stainer & A. Gully as co-authors

*Published Refereed Articles in Academic Journals* (continued)

VISUAL COMMUNICATIONS - THE JAPANESE EXPERIENCE
*Corporate Communications - An International Journal*
Vol.5, No.1, 2000, pp.34-41, ISSN 1356-3289
With M. Mestre, A. Stainer & B. Strom as co-authors

EMPOWERMENT AND STRATEGIC CHANGE - AN ETHICAL PERSPECTIVE
*Journal of Strategic Change*
Vol.9, No.5, August 2000, pp.287-296, ISSN 1086-1718
With A. Stainer as co-author

PERFORMANCE IN PUBLIC SERVICES
- A TOTAL PRODUCTIVITY APPROACH
*International Journal of Business Performance Management*
Vol.2, No.4, 2000, pp.263-275, ISSN 1368-4892
With A. Stainer as co-author

ENVIRONMENTAL SUSTAINABILITY AND
CAPITAL INVESTMENT APPRAISAL
*International Journal of Environmental Technology and Management*
Vol.2, No.4, 2002, pp.328-343, ISSN 1466-2132
With T. McDermott & A. Stainer as co-authors

*Work-in-Progress Refereed Articles in Academic Journals*

TOTAL PRODUCTIVITY - A STAKEHOLDER PERSPECTIVE
*International Journal of Business Performance Management*
2003. With A. Stainer as co-author

ETHICAL DIMENSIONS OF TOTAL QUALITY MANAGEMENT
*International Journal of Business Performance Management*
2003. With E. Gentili & A. Stainer as co-authors

PERFORMANCE ASSESSMENT IN MANUFACTURING
*International Journal of Business Process Management & Benchmarking*
2003. With E. Gentili & A. Stainer as co-authors

MANAGEMENT DECISION-MAKING - AN ETHICAL PERSPECTIVE
*Municipal Engineer*
2003. With A. Stainer as co-author

*Refereed and Published Conference Proceedings*

ETHICS IN PRODUCTIVITY AND QUALITY MANAGEMENT
IVth International Conference on Productivity & Quality Research, University of Miami, February 1993. *Productivity & Quality Management Frontiers IV*, D.J. Sumanth, J.A. Edosomwan, R. Poupart & D. Scott Sink (eds), Norcross GA, Industrial Engineering & Management Press, 1993, ISBN 0-89806-125-3. With A. Stainer as co-author, pp.884-892

MANAGEMENT OF TECHNOLOGY AND ENVIRONMENTAL RESPONSIBILITY
IVth International Conference on Management of Technology, University of Miami, February 1994. *Management of Technology IV*, T.M. Khalil & B.A. Bayraktar (eds), Norcross GA, Industrial Engineering & Management Press, 1994, ISBN 0-89806-127-X. With A. Stainer & A. Ghobadian as co-authors, pp.645-652

A PROPOSED FOUR STAGE METHODOLOGY FOR ADVANCED MANUFACTURING TECHNOLOGY INVESTMENT APPRAISAL
IVth International Conference on Management of Technology, University of Miami, February 1994. *Management of Technology IV*, T.M. Khalil & B.A. Bayraktar (eds), Norcross GA, Industrial Engineering & Management Press, 1994, ISBN 0-89806-127-X. With A. Stainer, A. Ghobadian & J. Liu as co-authors, pp.959-968

PRODUCTIVITY AND PERFORMANCE MEASUREMENT IN PUBLIC SECTOR MANAGEMENT
Vth International Conference on Productivity & Quality Research, University of Miami, February 1995. *Productivity & Quality Management Frontiers V*, D.J. Sumanth, J.A. Edosomwan, R. Poupart & C.G. Thor (eds), Norcross GA, Industrial Engineering & Management Press, 1995, ISBN 0-89806-148-2. With A. Stainer, A. Ghobadian & J. Liu as co-authors, pp.135-142

BALDRIDGE AND EUROPEAN QUALITY AWARDS - SIMILARITIES AND DISSIMILARITIES
Vth International Conference on Productivity & Quality Research, University of Miami, February 1995. *Productivity & Quality Management Frontiers V*, D.J. Sumanth, J.A. Edosomwan, R. Poupart & C.G. Thor (eds), Norcross GA, Industrial Engineering & Management Press, 1995, ISBN 0-89806-148-2. With A. Stainer, A. Ghobadian, J. Liu, H. Woo & D. Gallear as co-authors, pp.211-222

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Leicester, 29 January 1998

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Liberal Democrat Economic & Political Forum
London, 15 September 1999

APPENDIX II

## Copies of Journal Articles Presented

1. IS IT ETHICAL TO COMPETE ON ETHICS?

2. PRODUCTIVITY, QUALITY AND ETHICS - A EUROPEAN VIEWPOINT
   Received a 1997 Literati ClubAward for Excellence

3. ENVIRONMENT, TECHNOLOGY AND CORPORATE RESPONSIBILITY

4. PRODUCTIVITY AND PERFORMANCE - A VALUE-BASED APPROACH

5. ETHICAL DIMENSIONS OF RE-ENGINEERING

6. THE ETHICS OF TAX PLANNING

7. ETHICAL DIMENSIONS OF ENVIRONMENTAL MANAGEMENT
   Received a 1998 Literati Club Best Paper Award

8. THE UK FOOD SUPPLY CHAIN - AN ETHICAL PERSPECTIVE

9. BUSINESS PERFORMANCE - A STAKEHOLDER APPROACH

10. ETHICS AND PERFORMANCE MANAGEMENT

11. EMPOWERMENT AND STRATEGIC CHANGE - AN ETHICAL PERSPECTIVE

## Article 1

# IS IT ETHICAL TO COMPETE ON ETHICS?

*Business Ethics - A European Review*
ISSN 0962-8770
Vol.4, No.4, October 1995, pp.219-224

A. Stainer as co-author

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# *FOCUS*: Is it Ethical to Compete on Ethics?

Alan and Lorice Stainer

**Should ethical performance be a competitive factor in business behaviour? Is this necessarily a cynical view? 'A mature investigation into the use and abuse of ethics in relation to competition is required.' Dr Alan Stainer is Head of Engineering Management at Middlesex University, Bounds Green Rd., London N11 2NQ, Fellow of the World Academy of Productivity Science and Founder Director of the International Society for Productivity & Quality Research. Mrs Lorice Stainer is Senior Lecturer in Business Organisation at the University of Hertfordshire, Hertford Campus, Mangrove Road, Hertford SG13 8QF, responsible for the European Business Studies programme, and Business Ethics consultant. This paper was first presented at a Seminar on Teaching Business Ethics held at London Business School on Friday, 10 March, 1995.**

The competitive dimension of the business environment involves rivalry among businesses for customers. Any business activity can affect the competitive position of the organisation. This is because competition itself is a complicated, but necessary, ingredient of enterprise.

Competition should not be viewed with suspicion by business ethicists. It is an indispensable part of free enterprise thinking. As Frederick *et al* (1992) point out, once equal opportunity is achieved, the way is open for competition to encourage the most skilled, the most ambitious and the most efficient to rise to the top. Competition, in a market economy, is society's way of encouraging high levels of economic performance.

As in all business endeavours, there should be a foundation of good ethical behaviour. However, there has been a shift, in recent years, to attempt to actually compete in the market place on ethics, as is evidenced by the growth in green marketing, the 'conscience' shopper and ethical investment. There have even been books published advising on how to exploit the profit opportunities that may exist in green business.

The issue of social effectiveness and the achievement of ethical and environmental objectives, raise such questions as: how authentic is it to compete on morals? How genuine is the concept of going green or other forms of ethical competition? Is it a sincere corporate moral response, or is it merely a public relations exercise?

A mature investigation into the use and abuse of ethics in relation to competition is required. Despite good intentions, in most cases short-term economics would appear to form the bottom line in business objectives. Ethics is by nature a long-term investment and, in the words of John H. Stookey, President and Chairman of Quantum Chemical Corporation, 'ethical issues come down to the fundamental question of how much of today's benefit you are willing to forego for tomorrow's gain'.

Adam Smith's famous 'invisible hand' argument states that, provided there is competition to satisfy customer wants, then the common good is best served by the pursuit of individual self-interest. That way human welfare will be maximised even though not intended. As business enters the twenty-first century, a more enlightened approach is developing. As Adams *et al* (1991) advocate, there has been a change in corporate values in British companies over the last decade, with a greater concern for social and environmental issues. There has been a gradual climbing of the hierarchical pyramid of managerial responsibility, as put forward by Hosmer (1991), from operational to functional to technical to conceptual and ultimately to ethical.

Social effectiveness is gaining a small but significant foothold in business thinking, as demonstrated by the fact that in the European Quality Award 6% of the score relates to the organisations' social impact. Business

*a public relations exercise?*

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TEXT BOUND INTO

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ethics and social responsibility have become serious challenges for strategic management.

## The basis of competition

Whatever business an organisation is in, it is in an atmosphere of competition, and hence it should focus on how to gain, or maintain, a competitive advantage. Porter (1985) states that competitive advantage can be based on cost advantage which is related to productivity, or on perceived value to the customer which is based on differential advantage. He develops a model showing a value chain, claiming that competitive advantage cannot be understood by solely looking at an organisation as a whole. The advantage stems from the many discrete activities which an organisation performs in designing, producing, marketing, delivering and supporting its products or services. The basic concept is that each of these activities can contribute to the organisation's relative cost position and create a basis for differentiation. An organisation's value chain is embedded in a larger stream of activities, the value system, also termed the supply chain. Linkages can exist, not only within an organisation's value chain but also between its own chain and that of its suppliers and vendors.

Ohmae (1993) similarly believes that competitive advantage can be obtained through perceived value to the customer or cost differentials to the competitor. In his model, he shows that competitive advantage is related to what he terms the three Cs in the game, that is the Company, Competitors and Customers (*Figure 1*).

It is claimed by Christopher (1992) that those organisations that will be the leaders in the markets of the future will be those that have sought and achieved the twin peaks of excellence, gaining both cost and value leaderships. Drawing on the analyses developed by Fitzgerald *et al* (1991) and Stainer *et al* (1994), the essence of competitiveness and its inter-acting elements can be illustrated as follows (*Figure 2*).

The five elements are the components necessary to achieve the competitive objectives of an organisation. Competitiveness is the result of a chosen strategy and can be measured in relative market share and

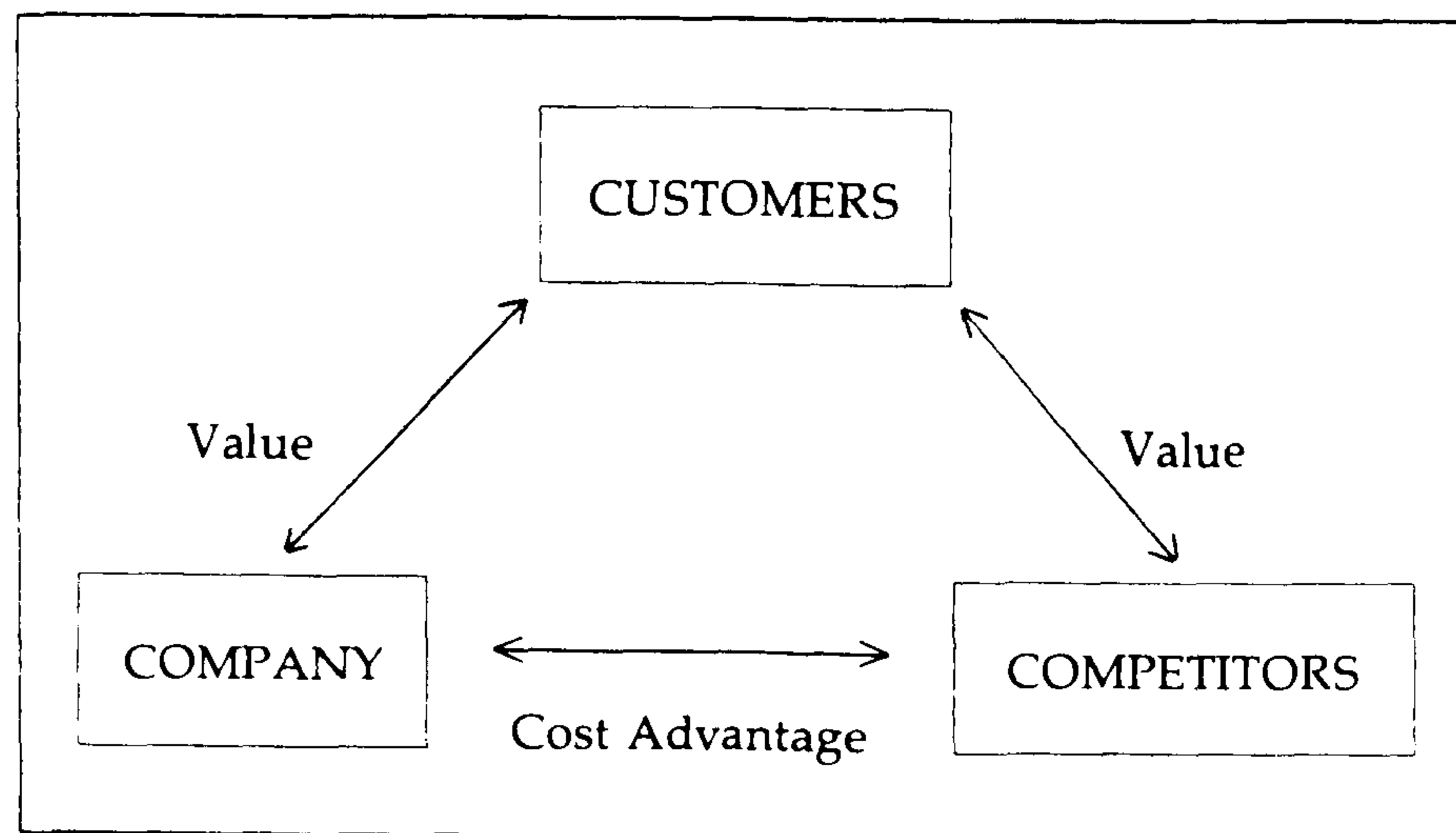


Figure 1. *Competitive Advantage and the Three Cs*

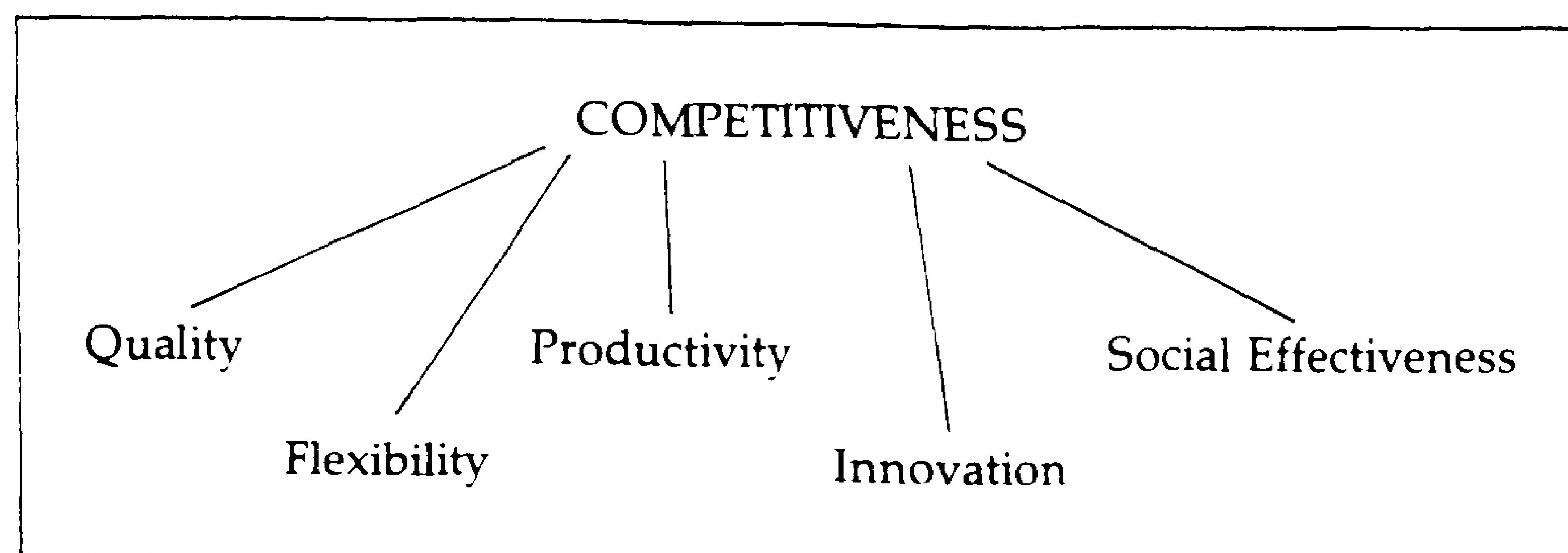


Figure 2. *Competitiveness and its Inter-acting Elements*



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position, sales growth, as well as measures of customer base. These five elements of success for competitive advantage can be compared with those of Keen (1995), who purports six key achievement areas for a world class organisation:

- customer focus
- continuous improvement
- flexibility
- creativity
- safe thinking place
- technical support

A step further would be to build a framework which would show the productivity, quality and ethical relationship through the business process (*Figure* 3). Productivity can be defined as the relationship between the output of a process or entity and one or more of the inputs used to create that output, whilst quality is simply satisfying customer needs.

Such a framework can be applied to both manufacturing and service industries, including public services. Whilst organisations tend to focus on the output of products or services, they should not ignore the additional potential outputs of pollution and employee satisfaction.

Interestingly, in any debate relating to social responsibility, it is the *outcome* that forms a major feature of any productive process as it is downstream from the *output* and constitutes the ultimate result. For instance, if the output of a university is high calibre graduates, the outcome is an educated society, whilst if the output of a hospital relates to the number of patients treated, the outcome would be a healthy society.

Stanley Gault, Chairman and Chief Executive Officer of Goodyear Tire & Rubber Co., states that 'the pursuit of financial results today cannot come at the expense of aid to education, charitable contributions or short-cuts in areas relating to the quality of products or the environment'. This approach reflects how more forward-looking organisations are taking into consideration the outcomes of their business processes and relating them to social responsibility.

## Business ethics and competitive advantage

In operations strategy, Garvin (1992) advocates that organisations can possess three competitive weapons, those of productivity and quality as well as new products and services. To this, ethics can be added as a fourth weapon, highlighted in the green movement. Clement-Jones (1992) believes that a strategy of social responsibility can help an organisation gain a competitive advantage, but it would also require leadership, innovation and communication.

According to Andersen Consulting (1994), excellence relating to world class manufacturing plants can be measured in terms of productivity and quality. But there is a definite affinity between quality and ethics as expounded by Mizaur (1993). He believes that ethics and quality are similar concepts in that they both mean 'doing the right things right'. This is underlined by Peterson (1995), who states that ethics can help nurture a quality culture, where employees are encouraged to think, speak up and improve key business processes. Schermerhorn (1993) affirms that the quest for quality and competitive advantage must always be tied to societal expectations for high standards of ethical conduct and social responsibility. Thus, competing on quality can be viewed as a proxy method of competing on ethics. This is particularly true as they are both customer-led and embody a long-term perspective.

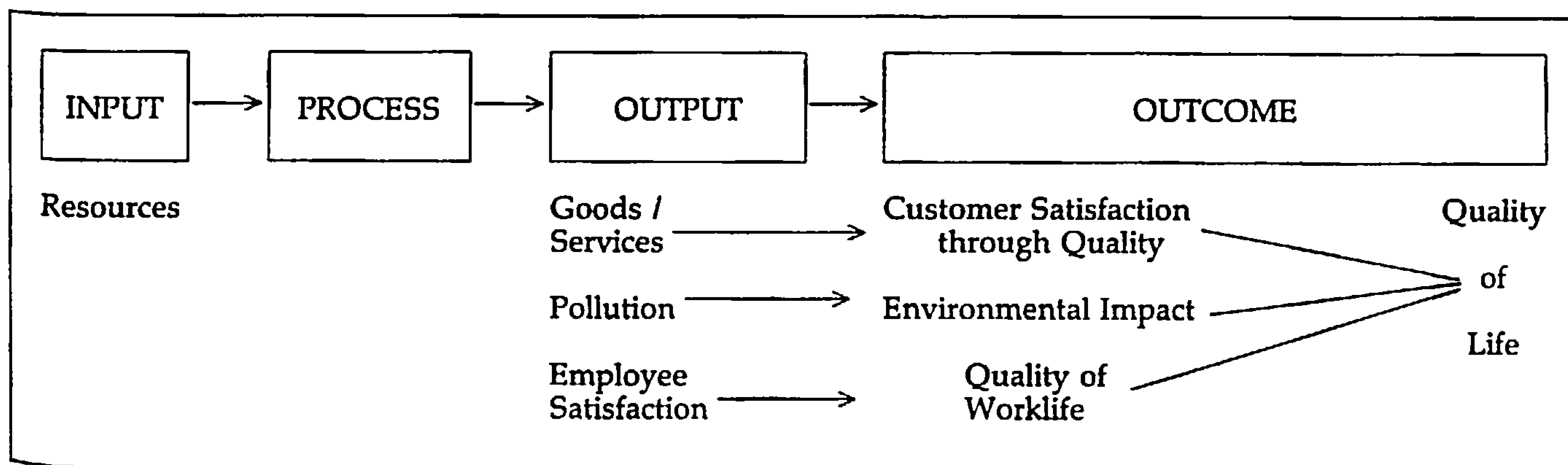


Figure 3. *A Framework for the Business Process*

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If organisations are to obtain business excellence, they should learn from the Japanese experience. Miyai (1992) proclaims that productivity and quality in Japan are not a conscious issue; they are part of the in-built corporate philosophy. It is this inherent approach that should also be applied to ethical behaviour in organisations.

*doing good and doing well*

Boroughs (1995) states that many companies are discovering that doing good and doing well go hand-in-hand. This approach underpins the views of Nash (1990) and Green (1994) who believe that ethics and business excellence are closely related.

*an 'ethics edge'*

In striving for business excellence, there is no doubt that there are pressures for organisations to introduce codes, especially under the Charter Initiative. There has been much discussion on charters and codes but one must ask how meaningful they are. Brigley (1994), in his survey on ethics in management for the Institute of Management, shows that over half of all respondent organisations with over 500 employees have codes of ethics, rising to 80% of those with over 50,000 employees. Webley (1994) points out that organisations which have brought in the best codes of conduct are often those who have recently been investigated for ethical abuses. Codes can only be as meaningful as the moral foundation of the organisation, its managers and its employees.

Ethics can provide a competitive advantage. According to Burke *et al* (1993), there are cases where organisations have deliberately adopted and internalised a strong ethical code in order to gain a competitive advantage over their less ethical rivals. An organisation's reputation for fair dealing with both its employees and its customers can build a lasting confidence with the local community, thus hindering attempts by new organisations to infiltrate the market. The ethical standing in a more macro view is inevitably less direct. Yet there are organisations, such as The John Lewis Partnership and Marks & Spencer, who have built reputations for good ethical conduct nationally over decades. With globalisation, ethical behaviour has become judged against more and more demanding international standards. Any deviation from acceptable ethical behaviour, which might be tolerated in one culture, may damage the reputation of an organisation in other cultures.

The ethical pathway in itself can produce two distinct organisational challenges. Firstly, there can be an 'ethics gap', as noted by Laczniak & Murphy (1993), between the customer's and the producer's own perceptions, in definition and practice, of what is considered ethical. This is particularly true in a society which has become more environmentally and ethically aware. Secondly, in such a society, fulfilling a whole range of societal responsibilities has placed competitive pressure on organisations. This has led to considerable ethics stress on managers to construct a corporate moral image whilst still remaining competitive.

To gain a competitive advantage, organisations need to ensure that their ethical stance must be higher than that of their competitors, thus creating value for all stakeholders. In doing so they would create what Carmichael & Drummond (1989) term, an 'ethics edge', where business ethics is defined as the key to business survival and business success.

## Competing on ethics in practice

The scenario of competing on ethics may not be that apparent at first. However, when one considers the business activities of such organisations as The Body Shop, Ben & Jerry's Homemade Ice Cream, Levi Strauss and Johnson & Johnson, who have benefited economically from their moral stances, it seems more obvious. Even the Pope's recent visit to the Philippines was sponsored by the San Miguel Brewery. Such organisations, as Cannon (1994) points out, use their positive acts as means of competitive advantage. They jealously guard their ethical competitive position, often accusing new rivals of plagiarism.

The Body Shop and Ben & Jerry's both initially sustained substantial market growth with little advertising, with the swell of positive publicity propelling them forward. They are hard acts to follow, mainly because their marketing success, via good ethics, was probably not wholly intentional. However, an inevitable problem for organisations which attempt to set high ethical standards is that they are bound to be open to scrutiny for the smallest deviation. For example, when Ben & Jerry's hit hard times by reporting huge losses in December 1994 and had to temper their idealism with a more realistic approach, they were wide open to criticism by business analysts. Politically correct eyebrows were raised when the company dropped its policy of not paying executives more than seven times the salary of other staff in order to attract a new high profile chief executive. As a spokesman for the company lamented, 'It's not an ideal world . . . We will continue to promote an ethical approach, but we have to run a business and ensure its success. We do our very best –



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which is more than other companies do – but nobody is perfect'.

There is no doubting that organisations which aim for high ethical standards can often stand up better than others to the challenges of moral issues. For instance, Johnson & Johnson, with their widely acclaimed and publicised *Credo*, handled their Tylenol crisis in 1982 with much credit. Also, McDonalds overcame the environmental problem which their polystyrene 'clamshells' for their hamburgers was causing. It was a burning issue about food being consumed in minutes whilst the packaging would be taking centuries to rot. Responding to the environmental concerns of their mainly young customers, they designed new packaging in league with the Environmental Defence Fund. This was a major triumph for a company which epitomised the throw-away society, thus regaining societal trust and maintaining their market position.

Both the Co-operative Bank and Levi Strauss have taken stances against unacceptable political regimes. In fact, both had little business connections with them in the first place. They probably had more to gain from the publicity than from the loss of business. Also, the Co-operative Bank has heavily advertised its ethical stance and investment policy, and, as Jack (1992) points out, has, in the process, economically gained far more than it lost. Much at the same time, National Westminster Bank relatively quietly introduced its Code of Conduct and good ethical policies. They state that ethics now takes its place among the non-financial performance measures against which the bank monitors its business.

Good business ethics is nothing new. Many organisations, such as Scott Bader, Cadbury's and Rowntree as Quaker companies, The John Lewis Partnership and Marks & Spencer, have been demonstrating this for many years. This was done as part of the corporate culture, with minimal bragging and certainly before Harvard Business School discovered business ethics.

It is morally stimulating that organisations are behaving to high business ethical standards and showing social responsibility. All supporters of good business ethics applaud this kind of stance. In doing so, they could set the benchmark for others. Benchmarking is a systematic comparison of elements of the performance of an organisation against that of other organisations, usually with the aim of mutual improvement towards excellence. Thor (1994) believes that organisations which benchmark in relation to conventional business performance measures can extend this concept to both environmental and ethical yardsticks.

## Conclusion

Roddick (1990) claims that the new word in the market place is values – and what consumers want are companies making socially responsible products or providing socially responsible services. However, according to Werther (1995), long-term success demands a customer-driven value-based strategy. He believes that customers in a free market environment may change their selection criteria in the perception of the value received from products and services. Therefore organisations should be aware of, anticipate and plan for such potential changes. Thus, green marketing concepts must be developed rather than remain static, or they would turn to autumnal brown.

Business is not just a financial process. According to Stark (1993) it is a system in which everyone must live. In a competitive environment, once it is established that it pays to be ethical, in both economic and moral terms, competition will continue to increase. The consequence of such a movement could result in the erosion of the 'ethics edge' that existed and organisations would look at other forms of competitive advantage through differentiation.

Is it desirable as a long-term competitive strategy to compete on ethics? The answer must be in the affirmative, since it is a legitimate competitive differentiation. Undoubtedly it has highlighted the issue of corporate social responsibility, but it could also pose several challenges. No organisation is above criticism and, by bragging about its ethics, it can become vulnerable to scrutiny.

There is a definite synergy between business excellence and good ethical practice. Discreet moral leadership, rather than a public relations exercise, is the key to reaping benefits for the organisation and all its stakeholders in the long term ●

*minimal bragging*

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## Article 2

# PRODUCTIVITY, QUALITY AND ETHICS - A EUROPEAN VIEWPOINT

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A. Stainer as co-author
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# Productivity, quality and ethics – a European viewpoint

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*Lorice Stainer*

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Abstract
Emphasizes the productivity and quality connection in relation to competitive advantage in operations management and strategy. Discusses the issue of ethics and its interface with productivity and quality. Highlights the underlying relationship between these three elements and demonstrates their integration to offer a triadic gain in both economic and moral terms in the pursuit of corporate growth. Presents and analyses a survey of business organizations, in both manufacturing and services, in three European countries, the UK, France and Germany. It is the combination of productivity, quality and ethics which will establish the management culture of the future. Provides guidelines to sow the seeds for the basis of improved operations performance and business excellence.

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In recent years, there has been considerable European interest in business ethics, stemming from the movement in the USA. Of all the management functions, operations management has been the least discussed in relation to ethical issues. This is probably surprising because operations and its strategy are the very core of a business enterprise, whether in the manufacturing or service sector.

## The productivity and quality connection

Productivity relates to the efficient utilization of inputs in producing prescribed outputs of goods or services. Quality of a product or service is the degree to which it satisfies customer requirements. Decision makers in business have always known, intuitively, that productivity and quality are closely related. This is despite the fact that productivity can be measured in several ways and that quality is often at the mercy of subjectivity. When Lee Iacocca took over the leadership of the Chrysler Corporation, he stated that these two elements "go together". However, many managers seem to believe that the effect of quality improvement is decreased productivity. This is because an improved product or service may incur a greater use of resources.

Productivity improvement often relates to better work practice and technological advancement, but these are not the sole issues in resolving the strategic productivity challenges. Often, management has not appreciated the relationship between quality and such factors as sales, productivity, profit and competition and that they should take an even closer inspection in this direction as a means for corporate growth.

There is a definite problem in Europe which is highlighted by Levy[1]. He reveals that, in 1991, relative to the USA, manufacturing productivity in the UK was 57 per cent, with 80 per cent for Germany and 79 per cent for France. He is particularly critical of the lack of concurrent engineering and total quality management in the UK. Andersen Consulting[2] conducted a comparative study for the manufacturing sector relating to surveys carried out in 1992 and 1994. They state that it is not surprising that, from a regional perspective, the order of performance is Japan, followed by the USA and then Europe. They report that, in productivity terms, Germany and the UK particularly were falling behind; and, in quality terms, based on

defective units per million produced, Japan performs four times better than Germany and France, and eight times better than the UK. They also emphasize that top manufacturing performers, that is those in world class, are identified through productivity and quality.

As Aguayo[3] relates, Deming's successful quality/productivity philosophy is based on the chain reaction of better quality leading to cost decreases. This is due to fewer rejects and delays, with better use of resources, and hence higher productivity. Ironically, in Europe, his approach has only recently come to the fore, while its adoption by the Japanese is now legend. It is a strategic approach which allows corporations to increase market share, and thus provide the impetus for survival and growth. Sumanth[4] advocates that Deming concentrates too heavily on the partial labour measure rather than on total productivity; he believes that Deming's methods are thus only really appropriate when using such a partial measure.

Garvin[5] demonstrates that there are three major competitive operations strategies: competing on quality, competing on productivity and competing on new products, services and processes. It is the synergy between these three that is vital to the future of both manufacturing and service industries. In a slightly different light, Porter[6] and Ohmae[7] also uncover relationships between quality and productivity. They suggest that competitive advantage is in relation to differentiation or value (including quality) to the customer and that productivity is reflected in the cost advantage to the customer. Thus, it is inevitable that competitive advantage, productivity and quality improvement are inextricably linked.

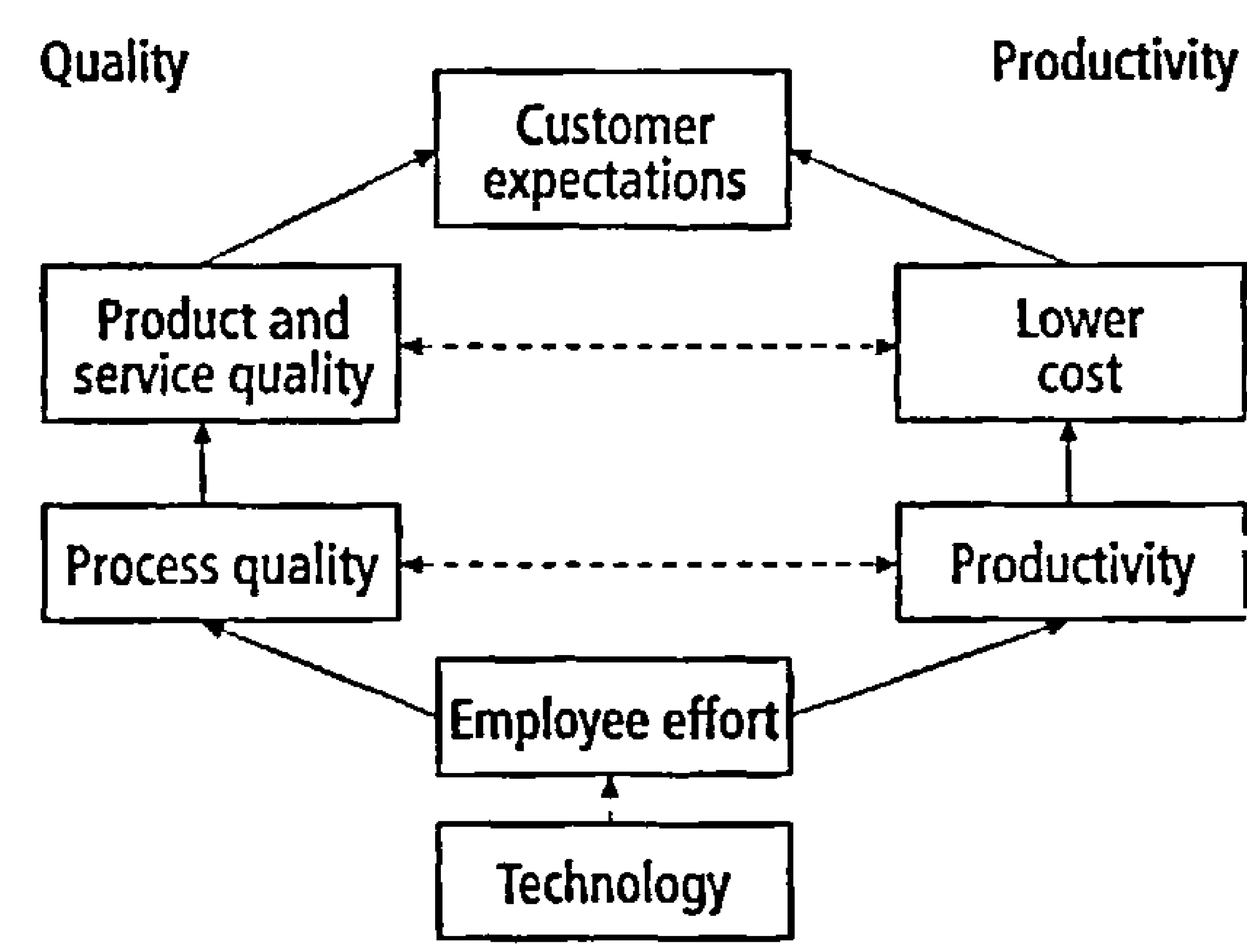
Low cost organizations would probably concentrate on continuous productivity improvement, as the Japanese have done through *kaizen*. Those competing on differentiation would increase profitability through a perceived value advantage for customers, hence realizing premium prices. Christopher [8] affirms that organizations would gain the ultimate competitive advantage when they had sought and achieved excellence in the twin peaks of cost and value leadership.

There have been attempts to make the productivity-quality connection at a more operational level. Adam *et al.* [9] introduce the concept of quality-productivity ratios. This is where unit costs of processing and rework are considered separately to account for the quality changes in an organization. The basic appeal of quality-productivity ratios is that they clearly illustrate that when quality improves, so will productivity. However, these can often be misleading when they are dependent on the number of rejected items. Lawlor[10] talks about quality productivity, that is where the cost of quality is dependent on the design specification as well as how effectively the workforce conforms to that specification. A method he favours is that cost trends of all rework and scrap should be shown as a percentage of costs on a moving quarterly average.

Thor[11] advocates that process quality and productivity are essentially the same (Figure 1). *A la* Deming, he concludes that, in analysing improvement processes, managers should not begin by subdividing measurement into productivity or quality categories. Instead, measures should be divided according to their intended usage, whether during controlling, screening or planning.

Drucker[12] believes that, in this century, the productivity improvements in the making and moving industries have been a major factor in wealth creation. He also states that, today, management's first social responsibility is the raising of productivity of both knowledge and service workers. Crosby[13] points out that, in the field of quality, there has been much debate but little direction. He purports that governments and authorities have the illusion that they can make up rules about quality and think that if their philosophy is adopted organizations will prosper. But, in reality, this is not so as their implementation is more complicated. For instance, exporting the ISO 9000 quality criteria and attempting

**Figure 1** Process quality and productivity



to "colonize" from Malaysia to Mexico, Europeans may be using methods that are not culturally appropriate. The same could be said with regard to productivity, when it is expected that Japanese methods could be successfully implanted in the West. In introducing quality and productivity change, the ethical issues have often been under-estimated or ignored.

As Heap[14] propounds, the organization's aim is productivity and the customer's aim is quality and, hence, undermining either would affect the overall business success scenario. Evans *et al.*[15], in support of this view, feel that the issue of quality must be customer-driven, translating customer needs into product or service specifications. The quality cycle must integrate with its productivity cousin into the ongoing dynamic process of corporate strategic planning. Stainer and Stainer [16] emphasize that managers are faced with many challenges relating to the improvement of productivity and quality. They highlight four major areas to:

(1) manage technology and change effectively;
(2) provide the workforce with sufficient knowledge and tools;
(3) motivate the workforce by ensuring understanding of the need for such improvements;
(4) create an ethical climate within the organization.

Productivity and quality management cannot be performed within a vacuum. It must be sensitive and responsive to the environment, which is constantly changing. Schermerhorn [17, pp. 702-3] suggests that, in order to achieve productivity and quality excellence as well as competitive advantage, management functions must be performed within a dynamic environment. This would need to embrace workforce diversity, global economy as well as ethics and social responsibility.

## Ethics within productivity and quality management

Ethical issues have been discussed, over time, through theology and philosophy. As Ferrell and Fraedrich[18] advocate, each religion applied its moral concepts, not only to business but also to government, politics, family, and all other aspects of life. Boone and Kurtz[19] state that management ethics are the moral premisses on which executive decisions are made.

Whatever their roles in an organization, individuals should be asking themselves: What is right or wrong? What is acceptable and what is not? The problems they generally face relate to the legal or profit requirements; the ethical perspective is not always a major consideration. The real corporate challenge is to balance economics, ethics and law, where the latter is the lowest denominator of acceptable ethical behaviour.

Individuals constitute corporations and it is their cultural and social backgrounds, principles and personal values that are crucial in decision making. Moreover, according to Stainer and Stainer[16], it is important to realize that management's ethical behaviour is moulded by five main factors:

(1) the business situation itself;
(2) the task to be performed;
(3) the group of peers;
(4) leadership style; and
(5) past experience.

It is also dependent on the external environment in which it exists, as well as society's perception of the organization. This is particularly poignant in the light of greater public awareness of ethical responsibilities. It is important to realize that there may be an "ethics gap", as advocated by Laczniak and Murphy[20], between the customer's and the producer's own perception, in definition and practice, of what is considered as ethical.

Thor[21] believes that quality is the best way to achieve productivity as the former is better understood and more acceptable to stakeholders. Focusing on the productivity/quality axis, it is the consequential aspects of the social as well as the economic viewpoint that should be considered. In the words of Mizaur[22]: "Quality and ethics are alike in that they both mean: doing the right things right". This is supported by Peters[23, pp. 83-4], who states that quality is practical, moral and aesthetic, and Peterson (cited in[24]), who believes that ethics can help nurture a quality culture, where employees are encouraged to think, speak up and improve key business processes. Making organizations both effective and competitive must be the ultimate responsibility of all managers.

Management often believes in updating equipment rather than developing and train-

ing employees, thus undervaluing the human assets. As Peters[23, p. 392] advocates, better trained people will provide massive productivity improvements over time. In Germany and Sweden, as well as in Japan, both productivity and quality have been improved through giving more autonomy to the workforce. Organizations do not like to admit that employees who work long hours, more meticulously and too hard, can create long-term "losses".

In this respect, a key issue is on-the-job stress with its physical, behavioural and psychological effects. Schermerhorn[17, p. 525]. suggests that there is a definite relationship between stress and performance. He feels that there are three types of stress: constructive stress acts in a positive way for the individual and the organization; eustress is stress which is positive and helps individuals to achieve a good balance with their environment; and destructive stress is dysfunctional. In the UK, the British United Provident Association (BUPA)[25], a private health-care group, carried out a survey which showed that 33 per cent of all stress is job related, rising to 48 per cent for men. In recent years, over 100 million working days per year were lost in the UK alone through job stress-related illness. Interestingly, blue-collar workers were twice as vulnerable to stress as their white-collar cousins.

There should be an awareness of the reasons for illness, absenteeism and turnover of human resources, with their consequences in both economic and social terms. In order to achieve greater efficiency and high quality, motivating the workforce must be a top priority for management. In this way, loyalty towards the organization, mutual respect and self-development would be enhanced, thus improving job satisfaction and making the management process more effective. Indeed, Mathis and Jackson[26] state that there are three kinds of individual performances that organizations need to prosper: productivity, innovation and loyalty.

A major tool in the field of productivity and quality, as described by Karlöf and Östblom [27] and Troskey[28], is benchmarking. The methodology provides a continuous and systematic process for comparing efficiency in terms of productivity and quality practices with those organizations that represent excellence. Even with benchmarking, there is the issue of ethics when organizations do not seek to acquire information about another organization without being willing to divulge the equivalent information about their own. There must be open comparison based on frankness, honesty and long-term mutual benefit.

An organization is only as ethical as the people it employs. Carmichael and Drummond[29] support the view that individual responsibility should equate to corporate responsibility within an ethical framework. In the pursuit of growth, conflicts may occur between employee aspirations and organizational objectives and goals. Therefore, it is important that, in relation to productivity and quality management, ethical issues are at the fore.

## The productivity, quality and ethics relationship

In business, there is general acceptance of the philosophy of social responsibility, though this is not always practised as it is generally achieved through a voluntary commitment. In some European countries, such as France, Germany and Spain, social effectiveness and its reporting is more highly advanced mainly due to governmental, trade union and corporate pressures. Social responsibility relates to organizations being held accountable for any actions that may affect the community and the environment. Frederick *et al.*[30] believe that organizations must balance competitive pressure with community needs. They support Kurosawa[31] who points out that the ethico-resource dimension is the foundation of corporate capacity in relation to productivity and reflects how effectively the business resources are raised, created, fostered and accumulated. Thus, productivity and quality demands, of both business and society, must be fulfilled.

It is the combination of productivity and quality that fosters world class performance and excellence. Green[32] and Nash[33] furthermore claim that ethics and business excellence are closely related, which can be illustrated in Figure 2.

Boroughs[34] underpins this approach and claims that many companies are discovering that doing good and doing well go hand-in-hand. According to Stainer and Stainer[16], there are strong arguments in favour of ethical behaviour in organizations relating to the

European Business Review
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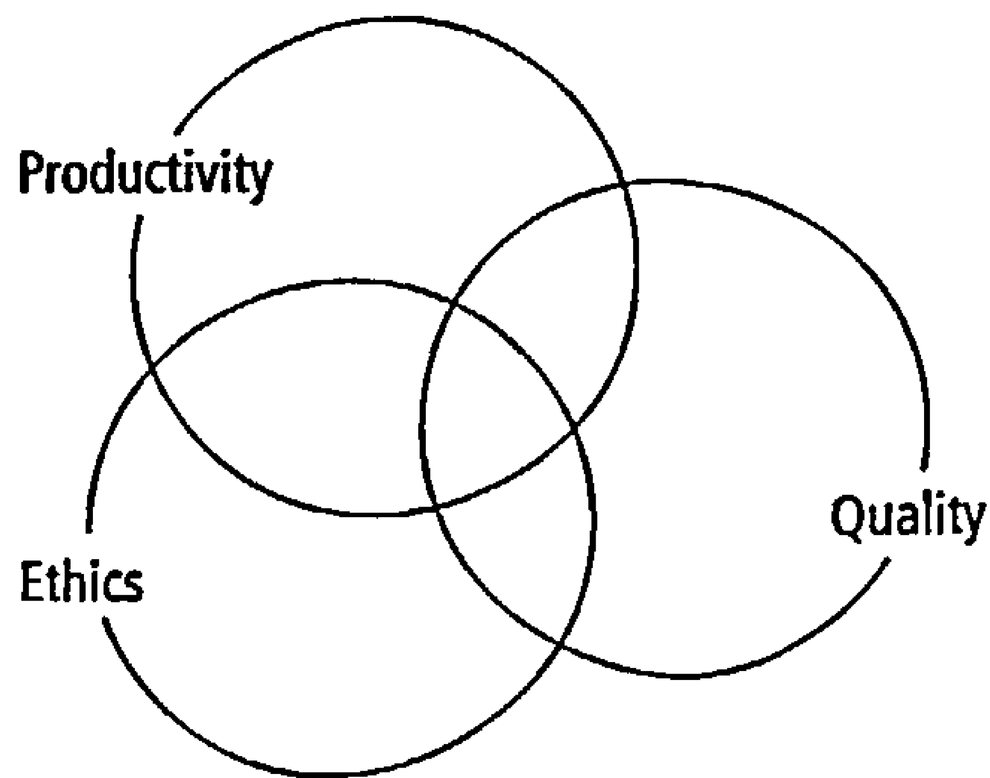
Figure 2 Productivity, quality and ethics




productivity and quality scenario. The four most important aspects are:

(1) the corporate image, both internally and externally;
(2) a better environment, in and out of the workplace;
(3) the avoidance of stricter governmental regulation; and
(4) the prevention of social problems rather than their cure.

When managers make business decisions, they must appreciate that there is a close link between productivity, quality and ethics. It is this synergic equation that improves performance, achieving goals both at the operational and strategic levels for manufacturing and service industries alike.

## Productivity, quality and ethics – a European survey

A survey was carried out of 480 large organizations, equally from three European countries, namely the UK, France and Germany, to support the issues and factors relating to productivity, quality, ethics and their relationship. Using a structured questionnaire, 223 responded from both the manufacturing (116) and service (107) sectors, with the UK contributing 82, France 74 and Germany 67.

### Productivity

Productivity is an output/input relationship. It can be measured in many ways with the following being the four major practised categories:

(1) partial measures, being a ratio relating output to a single input, such as labour, materials or capital;
(2) total factor or added-value productivity, being based on sales less bought-in goods, materials and services;
(3) total productivity measures, being a ratio of total output to total input;
(4) all other measures, ranging from sales per employee to management by objectives achieved.

Emanating from the survey, Tables I and II set out the findings in relation to formal programmes in both measurement and

Table I Productivity measurement and improvement programmes

| | Productivity measurement programme | | Productivity measurement improvement programme | |
|---|---|---|---|---|
| Country | Manufacturing % | Service % | Manufacturing % | Service % |
| UK | 66.7 | 57.5 | 61.9 | 52.5 |
| France | 64.1 | 60.0 | 58.9 | 57.1 |
| Germany | 62.9 | 56.3 | 57.1 | 46.9 |

Table II Productivity measures

| | UK | | France | | Germany | |
|---|---|---|---|---|---|---|
| | Manufacturing % | Service % | Manufacturing % | Service % | Manufacturing % | Service % |
| Partial measures | 54.8 | 50.0 | 51.3 | 45.7 | 57.1 | 46.9 |
| Added-value (total factor) | 9.5 | 10.0 | 7.7 | 8.6 | 11.4 | 12.5 |
| Total productivity measures | 11.9 | 12.5 | 10.3 | 11.4 | 8.6 | 9.4 |
| Other | 23.8 | 27.5 | 30.7 | 34.3 | 22.9 | 31.2 |

improvement of productivity. Compared with Stainer[35] for the UK and Sumanth[4] for France, there is a small, but significant, increase in the use of formal productivity measurement programmes (Table I). This is particularly true for total productivity measurement (Table II) with 7.5 per cent in manufacturing and 10.0 per cent in service industries for the UK in 1991; and 7.5 per cent for both sectors for France in 1993. It appears that greater interest and awareness have sprouted, in the main, within service industries. Partial measures continue to dominate with over 50 per cent in manufacturing in all three countries. Also, there is a significant usage of other unconventional measures, especially in France.

All three countries in the survey appear to be still marginally behind the US figures of a decade ago, specifically as regards total productivity measurement, as reported by Sumanth[36]. He found that the percentages were 13.3 for manufacturing and 20.0 for service organizations. Kraus[37] and Steedle[38] report 15.0 per cent and 28.0 per cent respectively for all organizations.

## Quality

When organizations were asked whether quality is a major objective, 68.3 per cent in the UK, 67.6 per cent in France and 62.7 per cent in Germany replied positively, with little difference between manufacturing and services. However, in response to questions on quality assurance and management, the results in Table III show considerable national variations.

Much activity is noted in formal quality assurance programmes, principally in the UK, dominated by manufacturing. There has been a greater impetus in the service industries in the last three years, possibly due to customer-driven initiatives. Current registrations for ISO 9000 or equivalent are at about equal ratio between manufacturing and service organizations. In Germany, there is more interest in product/service standards rather than overall quality assurance.

As defined by the Institute of Management Services[39], the concept of total quality management (TQM) is achieving success through delighting customers, whether internal, external or end-user, together with other stakeholders. This philosophy is still in its infancy in Europe and dominated by manufacturing. As Toone[40] and Oakland[41] both emphasize, TQM is receiving much publicity in the West as a way of reaching world class manufacturing status in Europe. They also state that TQM is regarded by many as a factor that could lead to the regeneration of European manufacturing. However, in the USA, TQM is slightly on the wane. This is evidenced by the fact that, in 1994, only 71 companies applied for the Baldrige quality awards, a fall of one-third in three years.

## Ethics

In this area, there was little difference between the responses of manufacturing and service organizations. Thus the positive results given in Table IV are on a national basis.

A moderately high percentage of organizations indicated that they considered they have an ethical corporate culture and statements or codes of ethics. With regard to the latter, the result for the UK was relatively close to the 75 per cent reported by the Institute of Business Ethics[42]; Brigley[43] reports 50 per cent for organizations with over 500 employees and 80 per cent with over 50,000 employees. Across Europe, Nash[44] shows that 85 per cent of respondents had a compliance code. A study by Langlois and Schlegelmilch [45] of the top 200 of each French, German and British firms indicates that ethics codes are originally a US practice that travelled to Europe via US subsidiaries.

**Table III** Quality assurance and total quality management

| | Quality assurance registration of ISO 9000 or equivalent | | Practice of total quality management | |
|---|---|---|---|---|
| Country | Manufacturing % | Service % | Manufacturing % | Service % |
| UK | 57.1 | 15.0 | 23.8 | 12.5 |
| France | 15.4 | 5.7 | 10.3 | 2.9 |
| Germany | 11.4 | 3.1 | 8.6 | 3.1 |

European Business Review
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Table IV The ethical perspective

| | Percentage of organizations | | |
|---|---|---|---|
| | UK | France | Germany |
| Does your organization have an ethical corporate culture? | 61.0 | 58.1 | 64.2 |
| Does your organization have a statement or code of ethics? | 67.1 | 58.1 | 62.7 |

Not all organizations which had codes believed they had an ethical corporate culture. On the whole, the codes of ethics incorporated distinct guidelines for the implementation of an ethical policy, an important element of which is the procedure for the reporting of unethical behaviour. Codes of ethics, generally, had clearer links with quality rather than productivity.

### The relationship

As regards the relationship between productivity, quality and ethics, there was no significant difference between manufacturing and service organizations. The results are shown for all organizations in Tables V and VI on a national basis. The majority of organizations in the UK and France felt that there was a positive relationship between productivity, quality and ethics. With regard to an "added-value" for an organization to behave ethically in productivity and quality, the positive response that it does pay to be ethical was marginally higher in all countries.

Table V Productivity, quality and ethics relationships

| | Percentage of organizations | | |
|---|---|---|---|
| | UK | France | Germany |
| Do you consider that there is a positive relationship between productivity, quality and ethics? | 57.3 | 52.7 | 47.7 |
| Do you consider that there is an "added-value" for an organization to behave ethically in productivity and quality management? | 58.5 | 55.4 | 50.7 |

Table VI Corporate growth in relation to productivity, quality and ethics

| | Productivity | Quality | Ethics | Relationship equation |
|---|---|---|---|---|
| UK | 3.4 | 3.6 | 2.8 | 3.2 |
| France | 2.8 | 3.1 | 2.5 | 3.1 |
| Germany | 3.1 | 3.2 | 2.8 | 3.0 |

Over a five-point scale, where 5 was considered very important and 1 least important, organizations were asked to consider the relevance of each of the three elements for corporate growth (Table VI). It appears that for all countries quality was considered to be the most important factor for organizations, followed by productivity and then ethics. Interestingly, the equation of the relationship was perceived as relatively important and scored considerably higher than the issue of ethics alone.

The research points towards keener interest in the relationship between productivity, quality and ethics. The seeds are being sown for the combination to form a basis for survival, operations excellence and corporate growth.

## Conclusion

There is undoubtedly a close relationship between productivity, quality and ethics. This is even more apparent when the outcomes of the business process are considered. The outcomes are downstream from output and form the ultimate result of a productive process. They embrace employee and customer satisfaction as well as the environmental impact, leading towards the quality of life. Social effectiveness is gaining a small but significant foothold in business thinking, as demonstrated by the fact that, in the European Quality Award, 6 per cent of the score relates to the organizations' social impact.

Making ethical decisions, according to Nixon *et al.* [46], is easy when the facts are clear and the choices right or wrong. However, it is a different story when the situation is controversial or is clouded by ambiguity, incomplete information, multiple points of view and conflicting responsibilities. In such situations, ethical decisions depend on both the decision-making process itself and on the experience, intelligence and integrity of the decision maker.

In order to develop an ethical climate in business, especially regarding productivity and quality, the following guidelines are recommended for improved performance, with more effective management for the organization and job satisfaction for the individual:

- Prepare and communicate a statement outlining what the organization expects in

the way of ethical behaviour, with definite links with productivity and quality.
- Establish clear procedures to enable employees to understand and participate in an ethical corporate culture with mechanisms for violation and questionable practices.
- Develop a monitoring process and revise as necessary.

Ethical behaviour should be an integrative factor within the productivity and quality management process. It leads to better understanding of corporate responsibilities as well as providing a competitive edge. The relationship between productivity, quality and ethics gives the triadic gain, achieving corporate aims in both operational and strategic terms. The philosophy is for the longer term.

In focusing on corporate growth within a market economy, the application of the relationship equation, for practising managers and policy makers alike, is vital. As competition generates growth through productivity, profitability or real cost reduction, the question of ethics and corporate social responsibilities becomes more evident. This is particularly true in an era when society is more aware, is better informed and has a greater conscience towards environmental concerns. Fulfilling a whole range of societal responsibilities has placed competitive pressure on organizations. This has led to considerable "ethics stress" on managers to construct a corporate moral image while remaining competitive. However, business morality and business excellence should not be segregated. The fusion between productivity, quality and ethics is the operations management culture of the future.

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## Article 3

# ENVIRONMENT, TECHNOLOGY AND CORPORATE RESPONSIBILITY

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# Environment, technology and corporate responsibility

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**Abstract:** Technological development and environmental responsibility are placed in their management context. A framework is constructed for the analysis of environmental issues in relation to the dynamics of business, from input via processes through to output and outcome. The concept of quality of products and services is matched with the concern for pollution and quality of life. Guidelines are presented for effective codes of practice for environmental responsibility with specific focus on technology. Examples are given from both European and American perspectives. It is the link between corporate responsibility, technology and strategic performance that organizations would need to integrate into their corporate culture of the future.

**Keywords:** corporate responsibility, environment, ethics, pollution, strategy, technology.

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## 1 Introduction

Business affects and is affected by its environment, which constantly changes. However, basically, every organization operates within four distinct environments: legal, social, economic and technological. Corporate responsibility spans across all of them. An organization should obey laws and regulations, operate in an ethical and socially responsible manner, and help to protect both the natural and built environments upon which we, as a society, all depend. It is those organizations acting within high standards of ethical conduct that prove that success can be achieved within the boundaries of responsible behaviour.

Many economic and business activities do not pay for the costs of the environmental damage that they cause. According to Tapper (1994), economists estimate that at least 3–5% of Gross Domestic Product in industrialized countries is spent on cleaning up some

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of that damage. This has led to the on-going debate on the 'polluter pays principle'. In the words of Tickell (1991), 'Businesses made a great deal of money fouling the world over the last 200 years ... and no doubt there are many fortunes to be made cleaning things up over the next three generations'.

Until recently, businesses were purchasing raw materials for conversion into products. Residues were disposed of as waste or pollution and were of no further use except to entail costs of disposal. Today, there is a definite realization that there may be economic benefit in the use, or sales, of what could be termed as 'left-overs'. Simmonds (1993) claims that this will increase 'molecular productivity', that is the more complete use of each molecule purchased or used in the chain from producer to final resting place.

Business and industry are moving towards sustainable operations as this approach is recognized as vital to the economy, environment and stakeholders. Any development will be sustainable only when it supports the communities and environments on which it strategically depends. This movement is proving not only feasible but also, by increasing productivity, contributing to profitability, employment, a cleaner environment and improvement of the quality of life.

Following such disasters as Chernobyl and the *Exxon Valdez*, environment and technology issues were at a peak in 1989, creating considerable awareness amongst the public. The momentum helped to give birth to the green consumer, but according to Hamil (1993), the current recession has forced a temporary waning in interest in environmental goals. This is mainly because, although there is still the concern, 'going green' can be a costly exercise. However, as Gummer (1994) states, every individual and every organization should make a conscious step-by-step attempt to save precious resources and hence the environment.

The European Union, in the past few years, has produced a profusion of environmental directives that have forced governments and organizations alike to look again at their stance with regard to environmental responsibility. Within this whole debate, technology is perceived as accountable for both innovation and pollution and, therefore, its management plays centre stage.

As Kidder (1992) correctly claims, technology has leveraged society's ethics in ways that were not dreamed of in the past, and points out that education may have failed society. The reason is that there has been much effort in teaching about the nature of technology and virtually no time spent on the moral and ethical consequences of that technology. This theme has been supported in the UK by the Government's Expert Committee on Environmental Education.

## 2 Environmental responsibility

Carmichael and Drummond (1989) believe that, in any debate on corporate responsibility, the first thing that comes to mind is care for the environment. Organizations use natural resources for profit, often taking the short-term view on environmental decisions. Society feels that industry has a duty to conserve them and to dispose safely of waste products. As a return, perceived environmentally friendly organizations can gain increased customer loyalty. Failure to meet community expectations can lead to adverse media publicity, as well as to stricter governmental intervention.

The relationship between technology and the natural environment is paradoxical. On the one hand, technology can be viewed as a major cause of problems with its application in an unsustainable way leading to the present environmental crisis. Conversely, it is felt

that it can solve its own problems via such technologies as nuclear fusion, solar power and biotechnology. Peattie (1992) points out that the argument that technology can provide the answers has been criticized by environmentalists. They view it as taking an engineering approach to master nature with technology, rather than taking an ecological approach and attempting to restore the balance of nature.

According to Manley (1992), the majority of the British public considers a clean and safe environment to be a basic human right. There have been several surveys highlighting environmental issues and relating them to corporate responsibility. For instance, Brigley (1994) finds that 87% of managers in utilities believe they are expected to follow environmentally 'friendly' policies by their organizations. In a corporate social responsibility survey, Worcester (1994) shows that, among a choice of responsibilities, 31% of respondents view protection of the environment as essential, the highest percentage awarded. Burke *et al.* (1993) state that 65% of senior managers and professionals felt that environmental procedures should always be followed, and as many as 90% agreed that businesses should pay for whatever environmental damage they cause.

The right to a clean and safe environment does not translate into a discontinuation of economic growth. One of the most important issues facing organizations in the next decade and beyond is the balancing of economic growth and respect for the environment. Therefore, it is imperative that they develop procedures and programmes for dealing with these issues. They must concern themselves with both the operations' immediate impact on the environment as well as the long-term indirect consequences. This is because organizations have become especially sensitive to the environmentally aware customer or consumer. The concept of customer-driven quality of products and services must be matched with a similar sensitivity for the quality of life.

The rate of technological change this century has been greater than all of the technological advances made in the previous 2000 years. Frederick *et al.* (1992) state that businesses are presented with the opportunity to capitalize on technological innovations and meet the challenge to use them in a way that reflects society's moral standards and expectations. However, society itself must not be ambivalent and must balance the benefits of technology against any negative consequences in order to ensure that past mistakes are not repeated.

Ferrell and Fraedrich (1994) believe that technology provides methods and machines to improve the effectiveness and efficiency of life, which sometimes have undesirable side-effects that endanger people or the environment. Through harnassing technology, organizations unavoidably create pollution in its widest sense. It is a price tag that modern society has paid and pays for growth and development. The cumulative effects of technological and economic activities have reached proportions never before contemplated. Innovation must be applied responsibly to improve standards of living.

Despite public awareness, and two decades of clean-up, some forms of pollution are worse than ever. Global problems, such as ozone depletion, global warming and rainforest destruction, are relatively recent crises that affect everyone. The managers of technology must face up to the challenges of the 'green' revolution. Sorrell and Hendry (1994) stress that there is often tension between environmental ethics, in which any damage to the environment is morally questionable, and business ethics, in which environmental responsibilities have to be weighed against responsibilities to stakeholders and the social benefits of business.

Environmental issues are business issues. How environmentally friendly an organization and its products/services are will obviously affect its cost structure. Greener outputs will often attract new costs related to environmental protection and improved environmental performance. Peattie (1992) estimates that businesses in the European Union spend over 30 billion pounds sterling each year on environmental protection as well as health and safety measures. Going green can be expensive. An example is the German statutory recycling scheme, DSD, which ended up costing a billion pounds a year and recovered mountains of paper and plastics that industry could not dispose of. Outputs may also incur additional marketing costs to differentiate them from those offered by their green competitors. This increased expenditure will be reflected in prices. However, cost savings may be achieved through reductions in wastage and better use of resources such as raw materials and energy. Over time, green products and technologies will eventually become more cost competitive. This is due to the learning curve effect and economies of scale from the rising volume of demand for such outputs.

In the UK, businesses today face unlimited fines if they fail to comply with the current rules governing the disposal of waste. Duty of care regulations, under the 1990 Environment Protection Act, are now in force. They ensure that organizations are held responsible for the safe disposal of their waste, even if they are delegating this responsibility to someone else.

In making strategic decisions in relation to the management of technology, long-term costs are often conveniently forgotten. For example, Stainer (1989), the Institution of Civil Engineers Energy Board (1992) and Surrey (1992) highlight the issue of the cost of decommissioning nuclear reactors, which many energy economists have grossly underestimated in their assessments. These factors forced the British Government to take the nuclear generation sector out of the electricity generation privatization programme as the full costs startled City financial analysts.

A framework (Figure 1) has been developed for the analysis of environmental issues in relation to the business process. Outcome is seen as downstream from output. It is the ultimate result of the system embracing, in total, the quality of life. It can be seen, through this framework, that any type of organization would interact with its environment and that today's decisions will have a long-term societal impact.

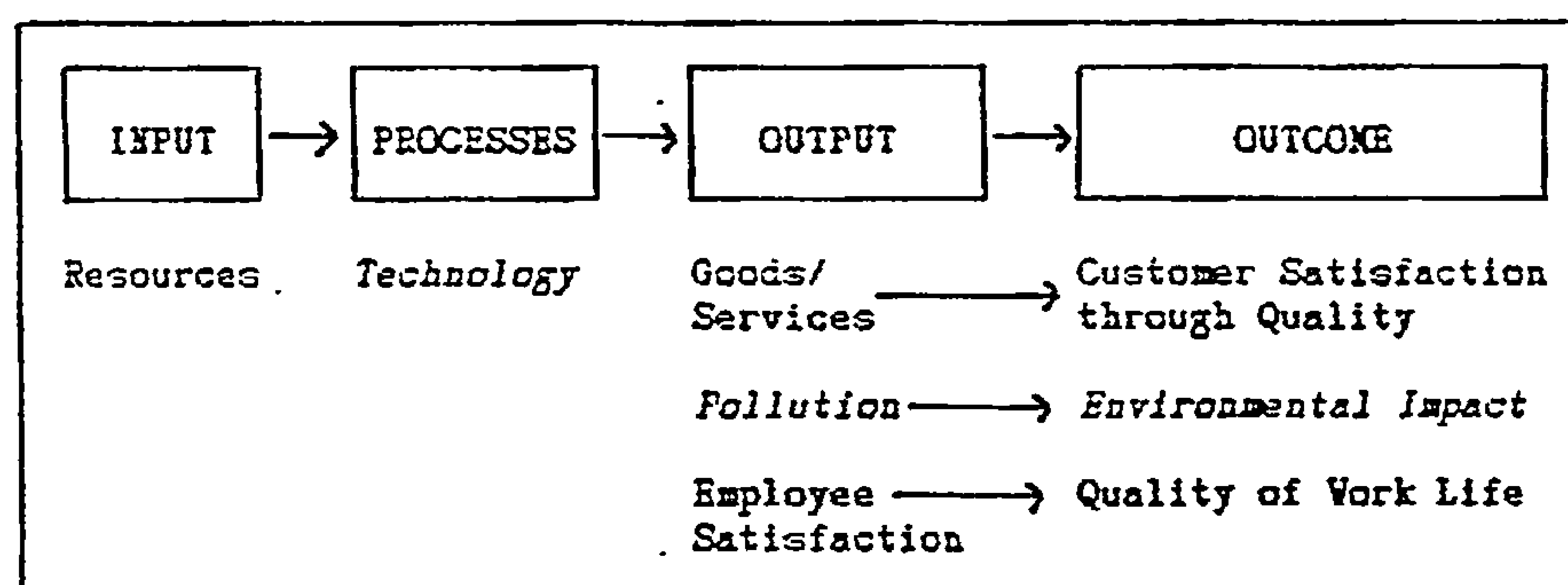


**Figure 1** The business process framework.

Today, management is responsible for considerable technological change which, in turn, must cause social change. Therefore, whenever managers contemplate technological change, they should consider the effect of that change on human resources. Will new

equipment replace employees? Will they require retraining? Will it necessitate additional personnel? Such questions need to be addressed throughout the decision-making process.

If new technology is perceived as stealing job interest, variety or human contact, it is usually the weakness of management rather than a consequential function of the technology, and, hence, a prescription for failure. With advancing technology, there seems to be no alternative but to adapt to new circumstances. However, Cannon (1992) states that technology places enormous strains on the ability of human systems to cope with change. Therefore, a major challenge for the management of technology is to ensure that this is conducted both in an effective and an ethical manner.

## 3 Standards of business practice and the environment

An organization must face the consequences of its actions in relation to its environmental responsibility. Though considered legal, there are many practices that are ethically in a grey area and that an environmentally sensitive company may wish to review. Stainer and Stainer (1993) believe that the real corporate challenge is a balancing act between economics, ethics and law, where the last is the lowest denominator of acceptable ethical behaviour.

Thus, codified standards that govern the response by businesses to environmental concerns are invaluable to a modern organization. This has prompted several investigations. The survey by Clutterbuck *et al.* (1992) with regard to social responsibility in business organizations in Britain indicates that just over three-quarters of respondents had environmental policies. The most common areas relate to pollution and energy usage, followed by the use of non-renewable resources and urban renewal. The earlier survey by Adams *et al.* (1991) indicates that the majority of UK employers had little real awareness of the extent of the environmental impact of their activities. Staying within the law was the limit of their ambition. Coulson-Thomas (1992), in a survey of both the public and private sector management in the UK, shows that 47% of respondents strongly agreed that all organizations should have an environmental policy, with 29% stating that the environmental issues should be seen as an opportunity rather than a problem.

As reported by Gray *et al.* (1993), the recent upsurge in environmental concern has brought a small increase in environmental corporate disclosure, especially amongst larger companies. Some forward-looking.organizations, such as British Steel, British Telecom and British Airways, have produced environmental reports and related them to technology. Although the contents of these reports do not divulge any new initiatives, they are at least a first step in the right direction.

Multinationals have also given a lead. According to Hamil (1993), IBM United Kingdom is a company with one of the strongest environmental records, identifying the crux of the problem as 'the concept of sustainable development, which does not jeopardize tomorrow's resources ...' The Dow Chemical Company claims that its actions to protect the environment have actually improved its productivity and the quality of its output. Kummer (1994) states that, in 1990, Rank Xerox management designed the Environmental Leadership Programme with the aim of not simply complying with environmental legislation, but becoming a leading company in the field of environmental management. Wenblad (1994) shows that, at Volvo, environmental responsibility is coincident with line responsibilities, that is the president or plant manager is legally responsible for environmental matters.

Several large European high technology organizations have produced codes of ethics, which relate to their concern for the environment. Manley (1992) gives clear examples of these and demonstrates the variety of ways in which such businesses have responded to their environmental responsibilities. The various codes range from a one-sentence statement by the Digital Equipment Corporation to fuller and more explicit declarations by Ciba-Geigy, RTZ and Royal Dutch Shell.

Gray *et al.* (1993) advocate that environmental accounting and reporting should become the norm and suggest guidelines in this respect. The target of ecological accounting, as expounded by Koechlin and Müller (1992), is to record and assess the ecological impact of economic activities, mainly for the following three reasons:

- To reduce the negative ecological effects of existing products;
- To set benchmarks for product development;
- To enable the creation of an ecologically orientated product range on a rational basis.

The foundation of their analysis relates to the value-added and pollution-added life-cycle of products and services. They endeavour to produce eco-balance sheets and profit and loss accounts.

As far as Donaldson (1992) is concerned, there are two basic tenets in relation to environmental issues. First, there should be methods for stimulating participation in the discussion and all participants should be encouraged to be well informed on environmental responsibilities. Second, there should be a recognition of the issues for what they are, whether technological, prudential or moral. Therefore, in making strategic decisions in the relationship between technology, the environment and corporate responsibility, organizations could focus on the four Ss, as advocated by Peattie (1992), for 'green' success, namely:

- Satisfaction – of stakeholder needs
- Safety – of products/services and processes
- Social acceptability – of the company
- Sustainability – of its activities

Following the style of Peters and Waterman, Elkington and Burke (1989) have developed a set of ten steps for organizations to adopt in relation to environmental excellence:

- Develop and publish an environmental policy
- Prepare an action programme
- Arrange the organization and staffing of the company
- Allocate adequate resources
- Invest in environmental science and technology
- Educate and train
- Monitor, audit and report
- Monitor the evolution of the green agenda
- Contribute to environmental programmes
- Help to build bridges between the various interest groups

Focusing on these steps, the approach can be simplified into the three pillars of environmental activity:

1 *Policy:* to set goals and objectives, based on a thorough understanding of the environmental impact;

2 *Audit*: to review the current environmental performance of technological operations and to identify options for improvement;

3 *Strategy*: to develop a programme for the implementation of technological change.

An ethical climate in business must surround these activities, especially in relation to the environmental responsibilities of the management of technology. Welford and Prescott (1992) show that many European organizations have found that, in order to achieve such activity, they have appointed an Environmental Director to the main Board, to put proposed policies into practice through the provision of information and leadership.

According to Thor (1994), organizations should have a family of control measures at the macro level. Included in these measures is an environmental index. This covers such elements as key emission levels, the amount of hazardous waste generated, and recycling rates, reflecting the organization's concern with various environmental issues and constraints. He advocates that this index has a 10% weighting in the top level of the family of measures. This makes an interesting comparison with the 6% weighting given to 'Impact on Society' in the European Quality Award scoring system.

Both management and employees need guidance on how to handle ethical problems. Their personal ethics may be exemplary but these cannot be aggregated to produce an ethical organization. They need to receive direction. However, as with any guidelines given, there is no way that all ethical or unethical conduct can be exhaustively listed. Therefore, the following procedure is recommended to develop an ethical corporate culture in a technological setting:

- Prepare and communicate a statement or code, outlining what the organization expects in the way of ethical behaviour, with definite links between the management of technology and environmental concerns
- Establish clear procedures to enable employees to understand and participate in an ethical corporate culture, with mechanisms for violation and questionable practices
- Develop a monitoring process and revise as necessary

It must be remembered that there is a considerable difference between compliance and a genuine commitment to statements or codes of ethics. Hoffman (1990) is convinced that a major reason why outbreaks of corporate wrongdoing are witnessed is not that managers are less ethical than others but rather that business gives so little thought to developing a moral corporate culture. Within this philosophy, individuals ought to act morally. Dickson (1993) reports that William Ferguson, Chairman of formerly ethically troubled Nynex, would like to see his organization trying 'to make ethical behaviour an everyday norm ... because, basically, it makes good business sense'. Thus, ethical behaviour should be an integrative factor within the management of technological processes. It would lead to a better understanding of corporate responsibilities, as well as providing a long-term competitive edge.

## 4 The environment and technology link

The challenges highlighted by the paradox of technological development are both profound and complex. Technology, according to Ausubel *et al.* (1989), should become a ground on which takes place the problem-orientated reintegration of the domains of human knowledge and social development. This approach reflects the opinions of a decade earlier of Meyer-Abich (1979) who claims that the intersection of technology and environment in a sense has been a blind spot in our system of knowledge, and that this gap is at the root of today's environmental crisis.

Heap (1992) illustrates that even simple technological changes will have implications for the supporting systems and procedures, for the way in which the people who have to use the technology have to work and the ways in which people relate to one another. It seems, therefore, essential that some form of technological scanning is carried out and related to the organization's environment.

A view held by Tapper (1994) is that technology strongly influences human impacts on the environment. On the positive side, new technologies can be applied to cleaning up environmental damage and to reduce impacts from specific goods and services. This is even more pronounced in poorer communities and countries, where the introduction of even the most basic of technologies can greatly reduce impacts on the environment. On the negative side, the development of technology and its associated infrastructure has led to high levels of consumption per capita. Technological development has undoubtedly led to increased productivity and reductions of unit pollution and waste. Unfortunately, the growth of population, and hence consumption, is outstripping efficiency gains and imposing further burdens on the environment.

Management needs to begin to lay a firm foundation for the future in relation to the vital issue of environmental responsibility. The following major areas, based on Gray (1989), form the chief ingredients of a technology-based ethical culture:

1. Educate engineers and technologists to appreciate the implications of their endeavours for the social, natural and built environments;
2. Educate non-scientists to understand the nature of applied science and engineering;
3. Recognize the need for communication, firm resolve and mutual respect amongst all stakeholders;
4. Develop technology for sustainable growth allied to risk management;
5. Develop the skills of policy-making at all levels, reflecting the implications of technological innovations.

The implementation of such appropriate guidelines for practising managers of technology and policy-makers alike is essential. Society, today, is not surprised by technological change and, therefore, there is a danger that, unless managers make calculated decisions about the future, their organizations may well be overtaken by events. In an era when society is more aware, is better informed and has a greater conscience towards environmental issues, it is the galvanizing of technology, the environment and good ethical behaviour that will become the focus for future business philosophy,

## 5 Conclusion

Both Nash (1990) and Green (1994) believe that ethics and business excellence are closely related. This philosophy can be illustrated from both extremes of technology. The low-technology McDonalds successfully coped, in league with the Environmental Defence Fund, with the growing protests about the environmental damage caused by polystyrene plastic foam packaging. The high-technology Monsanto made a pledge to reduce its worldwide air emissions of 307 chemicals by 90% by the end of 1992 – achieving it earlier – and continue to work towards the ultimate goal of zero emissions. These two corporations gained much in public relations terms and, moreover, have set high environmental standards to be benchmarked.

Therefore, corporate responsibility, technology and strategic performance, such as real unit cost, profitability or market competitiveness, can be successfully interlinked (Figure 2).

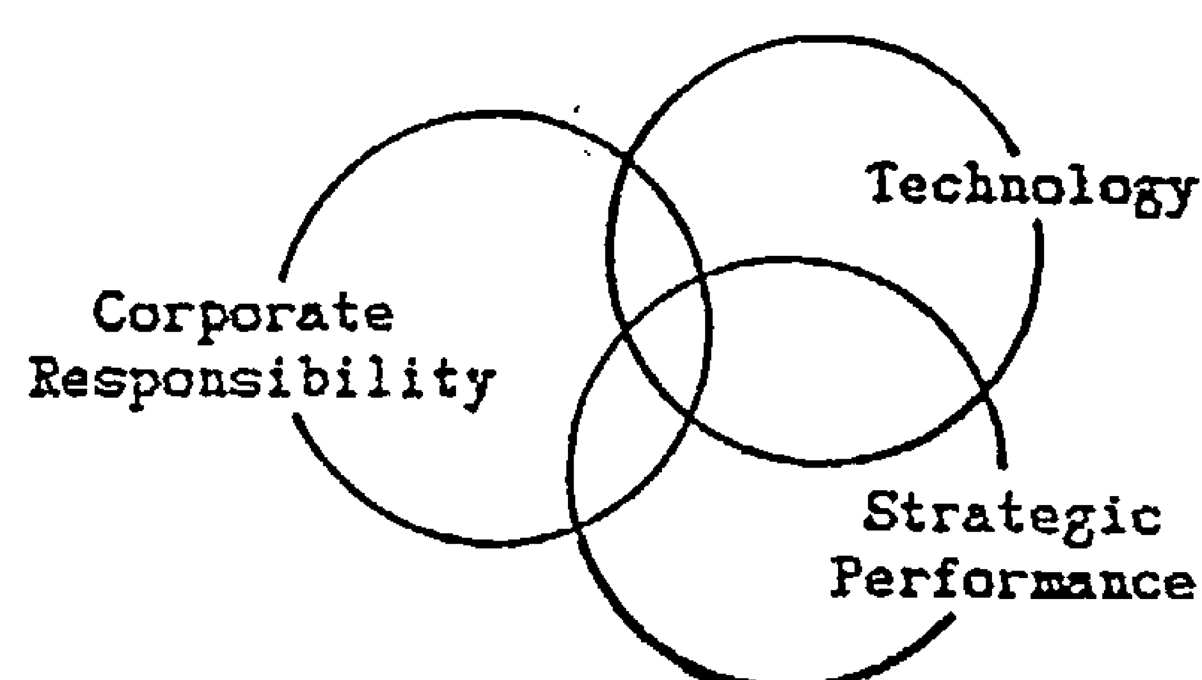


**Figure 2** Technology and its interlinking elements.

As Michael Harrington states in an appendix to *The Other America*, 'If there is technological advance without social advance, there is almost automatically an increase in human misery'. It is important to realize, therefore, that today's problems come from yesterday's solutions. Leaders of advancement, with vision, must provide the means to realize strategies for a viable future, embracing economics, environment and culture.

Schokkaert and Eyckmans (1994) point out that environmental problems have an international dimension. Thus, corporate responsibility towards the environment, via a techno-ethical perspective, is both a business and global issue. As technology marches on to the 21st century, management must face up to environmental responsibilities in a planned and structured fashion.

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**Article 4**

## PRODUCTIVITY AND PERFORMANCE - A VALUE-BASED APPROACH

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# Productivity and Performance: a value-based approach

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ABSTRACT *The article places performance, productivity and ethics in their business context as well as their relationship to value. Stakeholders' expectations and perceptions of values are considered. A framework for analysis is presented, showing the business process and its link to productivity and outcomes. A critique is given of measures of value within business performance. A values index for business excellence is developed to give a more meaningful indicator of value for performance analysis. In a competitive environment, it is argued that it is the balance and integration of performance, productivity and stakeholder values which can provide gains in both economic and moral terms.*

## Introduction

In the last few years, there has been considerable management interest in performance measures and productivity, reflected in the number of conferences and seminars held. Measurement should be an integral part within a value framework because, as Drummond & Bain (1994) point out, there must be a philosophy of an organisational purpose by pursuing goals through the root of ethical concepts of value.

When determining what is perceived as valuable to an organisation, a structure should be established. In relation to performance, decision makers should ask and address the following questions:

1. who counts?
2. when does it count? and
3. how is it counted?

As far as Thor (1994) is concerned, in order to create a high performance organisation, there must be a family of measures of success. This is defined as a balanced collection of four to six performance measures, such as productivity, quality and customer satisfaction, that together provide a comprehensive view of organisational results but individually also give a diagnostic value. These need to be linked to the appropriate level of the strategic plan and expressed in that level's language.

The integration of ethics in management decision-making will remain obscure unless it is allied to all the business functions. According to Selley (1994), corporate ethics is a strategic management issue that should be considered in every facet of business decisions. An ethical organisation expects and communicates ethical behaviour and fair treatment to all

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stakeholders. Campbell *et al.* (1993) state that values are the beliefs and moral principles that lie behind the company's culture. It is through such corporate culture that the values of managers and employees alike are shaped and pointed in a common direction. What is often at stake is the integrity and moral health of both the organisation and its employees. Adair (1980) and later Schermerhorn (1993) believe that decisions and actions will always be affected, in part, by individual values. However, it should be remembered that though personal ethics may be exemplary, these cannot be aggregated to produce an ethical environment.

The value system operating within an organisation can create both opportunities and threats. The view expressed by the RSA Inquiry into Tomorrow's Company (1995) is that if a company's value system is misunderstood or mismanaged, it produces the type of behavioural risks which can lead to corporate decline. Robb (1993) claims that it is essential for managers to be educated in a value-based approach. Similarly, Koller (1994) illustrates that value-based management systems require deep understanding of the value drivers in a business and how they interact.

As the European Values Study (1992) shows, there is considerable public concern in many aspects of business behaviour. Humble & Thomson (1992), in their survey of executive opinion in the UK, put forward two conclusions: firstly, managers understand the importance of corporate values to their organisation, and, secondly, for most of them, there is still a long way to go before they are fully implemented. The challenge, therefore, exists for a value-based approach to business strategy and performance.

### Stakeholders and Values

Society depends on business and expects much from it. Expectations range from wealth and job creation to corporate giving. Table 1 depicts some of the demands which different stakeholders can place on organisations:

**Table 1.** Stakeholders' expectations

| Stakeholders | Expectations |
|---|---|
| Community | Safety, environmental concern, societal contribution |
| Competitors | Fair competition |
| Creditors | Credit worthiness, security |
| Customers | Supply, quality, value for money |
| Employees | Fair pay, training, job satisfaction, health and safety at work, equal opportunity |
| Government | Legal compliance, social responsibility |
| Shareholders/owners | Financial return, value-added |
| Suppliers | Prompt payment, long-term relationship |

Inevitably, these expectations may vary over time as well as for differing cultures. It is within this reasoning that there must be mutual trust between the organisation and the stakeholders. As Johnson & Scholes (1993) point out, organisational cultural needs should be analysed to appreciate the paradigm of the organisation. The most apparent expression of the paradigm are the values, probably quoted in the mission or values statement. Campbell *et al.*

(1993) believe that a sense of mission comes from a values match of corporate values with employees personal values. Likewise, Tichy & Sherman (1993) reveal that the great strength of American companies, like General Electric, is that they have a strong and all embracing values statement.

Adams *et al.* (1991) suggest that there has been a change in corporate values in top British companies over the last decade, with a greater concern for social and environmental issues. There is a gradual climbing of the hierarchical pyramid of managerial responsibilities, as put forward by Hosmer (1991) from operational, to functional, to technical, to conceptual, and ultimately to ethical. Social effectiveness, which pertains to the achievement of objectives on ethical and environmental dimensions, is gaining a small but significant foothold, as demonstrated by the fact that, in the European Quality Award, 6% of the score relates to the social impact of a business.

The guiding strategy of an organisation, according to Frèderick *et al.* (1992), cannot possibly be formulated without taking into account three vital areas of action:

1. to identify its stakeholders in order to safeguard their interests;
2. to analyse the dominant values of the organisation and of its key executives and stakeholders; and
3. to ascertain the major societal issues and how these might affect the organisation and stakeholders.

Cannon (1994) states that the attitudes and values held by managers are shaped by a lifetime of experiences. Managers, being human beings, are unable to separate their feelings, emotions and personal preferences from logical and rational analysis when making decisions. Their experiences, whether of success or failure, are likely to affect how they view a situation. The pressures on modern managers are considerable and two-fold. Firstly, within the organisation, the major elements are the nature of the business and the company culture. Secondly, the external factors include family, friends and peers, wider society, as well as concern for the environment.

In simple terms, the basis of all organisations is to create value but, in management discussions, the term 'value' has often been loosely used. One must ask the question: value to whom? It is the perception of value of all stakeholders that should be considered.

## Productivity, Performance and Ethics in Context

A focus should be made on two main types of values that are likely to influence managerial performance and productivity. The first is founded on formal education as well as training into the organisation's culture and policies. The second derives from entrepreneurial flair, personal drive and energy which leads to innovative values that exceed the bounds of the organisational framework. These two elements should be harnessed to generate business success. Hammer & Champy (1993) show the business system as a continuous diamond-shaped cycle, emanating from business processes, to jobs and structures, to management and measurement systems and to values and beliefs. Golembiewski (1962) provides a theoretical platform to unite the practical with the ethical dimensions of organisations, arguing that a specific set of values guiding human relations are, in fact, empirically correlated with

higher output in organisations. These ideas are reiterated by Golembiewski *et al.* (1992) and revisited by Garson & Vasu (1994).

Performance measurement within any organisation must be considered in relation to its economic and ethical objectives. Thor (1994) illustrates that, within his family of measures, the health of the organisation must be assessed through such yardsticks as value-added, customer satisfaction and environmental indices. In a European context, probably the best analysis of performance measurement is given by Fitzgerald *et al.* (1991) and Stainer *et al.* (1994). It is identified within two categories:

1. the resultants of the effectiveness of a chosen strategy, such as market competitiveness, financial performance and real unit cost; and
2. the determinants of competitive success, which embrace quality, flexibility, resource utilisation (or productivity), innovation and social effectiveness.

The determinant 'productivity' can be defined as the relationship of the output of a process or entity with one or more of the inputs used to create that output. In total productivity terms, it is the relationship between the output of a process and all the inputs to that process. The total productivity measure can be seen as the inverse of real unit cost. Heap (1992) emphasises the importance of top-line productivity. His approach relates to the output/ input nature of productivity, which can be expressed as:

$$\text{Productivity} = \frac{\text{Value of goods/services}}{\text{Cost of resources consumed}}$$

He argues that there has been a tendency to concentrate on what is easily counted and measured, and pay too much attention to short-term rather than longer-term futures. There has been much emphasis on the bottom-line of cost reduction at the expense of top-line factors, embracing value to the customer and society. He also points out that productivity is the goal of the manufacturing or supplying organisation whilst quality is the aim of the customer.

Productivity is a function of effectiveness and efficiency, with the former relating to performance and the latter to resource utilisation. Its objective is to achieve the highest productive result possible whilst consuming the least amount of resources. Thus, based on this concept, productivity can be enhanced in four ways:

- improving efficiency, which is the ratio of actual output obtained to standard output expected; this can be achieved through, say, lowering operating costs, generating savings in labour and machine time, as well as reducing waste;
- improving effectiveness, which is the degree of accomplishment of objectives; this can be accomplished through better decision-making, communication, organisational design and human competencies;
- obtaining higher performance through such goals as increasing quality, reducing accidents as well as minimising lost time;
- developing the quality of work life for employees.

In applying these productivity improvements, it is important to realise that the value of human endeavour must not be under-rated. A major ethical

| INPUT | OUTPUT | | OUTCOME | |
|---|---|---|---|---|
| | ECONOMIC | SOCIETAL | INTERMEDIATE | ULTIMATE |
| Resources | Goods/Services | | Customer Satisfaction through Quality | Quality |
| | | Pollution | Environmental Impact | of |
| | | Employee Satisfaction | Quality of Worklife | Life |

**Figure 1.** The input/output/outcome framework.

factor that emerges is stress. For example, in Japan, *Karoshi*, or death from overwork, is estimated at 10,000 cases per year. Paradoxically, two-thirds of all on-the-job stress can be attributed to non-productive behaviour which include such factors as time wasted waiting for resources or information and unnecessary meetings. These and other roadblocks to productivity affect profitability and performance. Ultimately, these elements lead to lack of self-development, creativity and motivation as well as diminished loyalty, which according to Mathis & Jackson (1991) are the very essence of the stimulation of individual performance.

Value can be generated for both an economic and societal gain. Therefore, the business process can be analysed two-fold: firstly, through an output/input relationship (or productivity) and, secondly, through an output/outcome connection. A framework can, thus, be developed which could be appropriate to both manufacturing and service industries (Figure 1).

Whilst organisations tend to focus on the economic output of goods or services, they should not ignore the other potential societal outputs such as pollution and employee satisfaction. Interestingly, in any debate relating to social responsibility, it is the outcome that forms a major feature, as it is downstream from output and is the long-term result of any productive process. As examples, if the output of a university is high calibre graduates, the ultimate outcome is an educated society, whilst if the output of a hospital relates to number of patients treated, the ultimate outcome would be a healthy society. Therefore, in discussing productivity and performance within a value-based arena, outcomes are becoming increasingly meaningful. In this regard, indices relating to the environment, long-term customer satisfaction and quality of worklife can be developed.

Beer (1981), and later Kurosawa (1992) in a Japanese setting, both perceive productivity and its potential from a different measurement standpoint. They highlight that, apart from just finding out how a system is working, measurements should also compare actuality with capability, as well as with potentiality. The latter is usually greater than capability, which itself is usually greater than actuality. When viewed in this manner, it is clear that simple goals of production, volume or cost are inadequate measures of a system performance. Such concepts can be analysed through a model which

provides a long-term view of what a productivity system should be able to achieve (Figure 2):

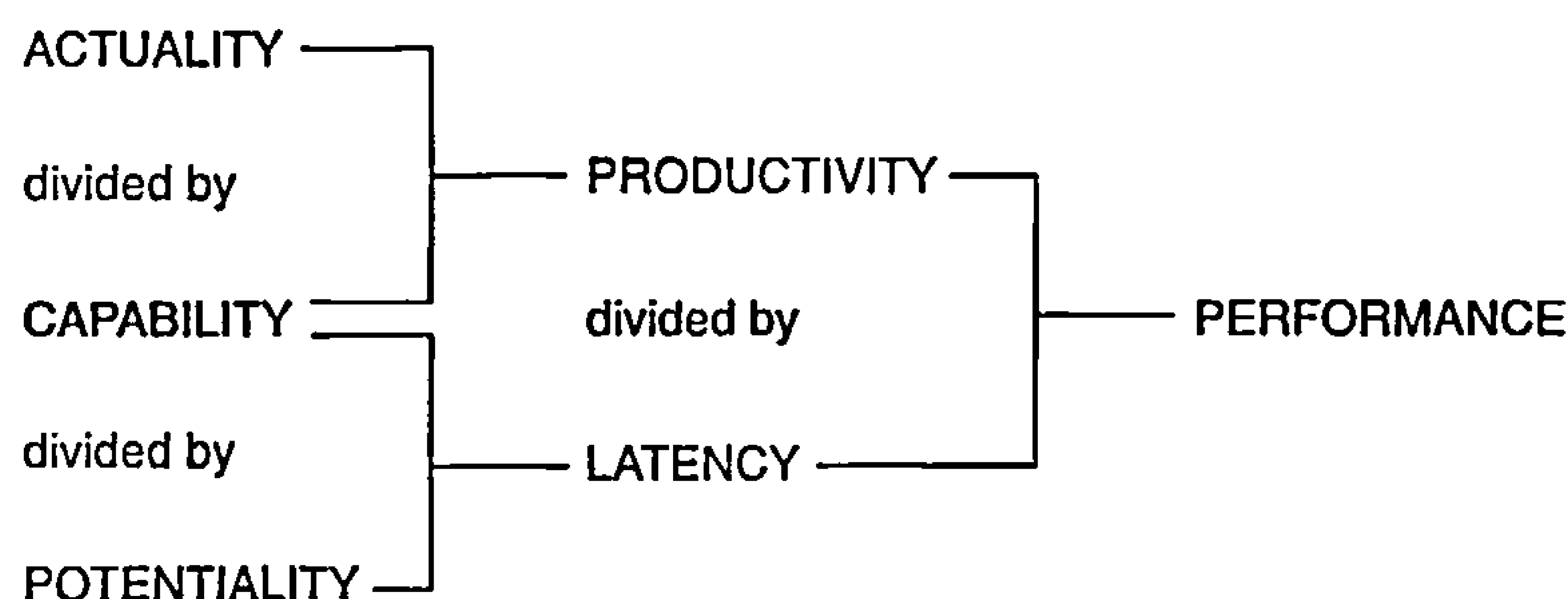


**Figure 2.** Organisational potential capability.

Such an approach would highlight the decision of management to focus on short-term targets whilst jeopardising the continued economic and moral viability of an organisation. In the words of John H. Stookey, President and Chairman of Quantum Chemical Corporation, 'Ethical issues come down to the fundamental question of how much of today's benefit you are willing to forego for tomorrow's gain'.

Several European-based surveys have identified that performance productivity and ethics are important in corporate strategic thinking. Amongst these, Stainer & Stainer (1993) show that management perceive a close relationship between productivity, quality and ethics in a comparative study embracing France, Germany and the UK. Brigley (1994) finds that a large majority of managers feel that their organisations have strong expectations of their moral performance, the quality of their product or service and the use of professional discretion. Burke *et al.* (1993) give evidence of high standards of ethical attitudes, strong support for tough-minded market-orientated values as well as concern for the environment. Thus, there has been investigation into performance and productivity measures, placing them in their value-based context. A further development would need to relate these elements to organisational competitive advantage.

## Frameworks for Value and Competition

Whatever business an organisation is in, it is, in general, in an environment of competition. Hence, it should focus on how to gain, or maintain, a competitive advantage. If the organisation's objective is to create value for its stakeholders, it ought to pursue an ethical pathway, which in itself can produce two challenges. Firstly, there can be an 'ethics gap' between the customer's and the producer's own perception, in definition and practice, of what is considered ethical; this is particularly true in a society that has become more environmentally and ethically aware. Secondly, there can be an 'ethics stress' on managers to construct a corporate moral image whilst still remaining competitive.

The relationship between value and competition within business dynamics has been highlighted by several writers. Porter (1985) states that competitive advantage can be based on cost advantage which is related to productivity,

or perceived value to the customer which is based on a differential advantage. He develops a value chain, claiming that competitive advantage cannot be understood by solely looking at an organisation as a whole. The advantage stems from the many discrete activities an organisation performs in designing, producing, marketing, delivering and supporting its products or services. The basic concept is that each of these activities can contribute to the organisation's relative cost position and create a basis for differentiation. An organisation's value chain is embedded in a larger stream of activities, the value system, also termed the supply chain. Linkages can exist, not only with an organisation's value chain but also between its own chain and that of its suppliers and vendors. Similarly, Ohmae (1983) believes that competitive advantage can be obtained through perceived value to the customer or cost differentials to the competitor. He shows that competitive advantage is related to what he terms as the three C's in the game of business, that is the Company, Competitors and Customers.

In a moral context, further dimensions can be assessed at each step of the value chain looking at the ethical differential advantage regarding human and environmental issues. Conversely, Peattie (1992) suggests that, in relation to the environment, the value chain should be investigated at each step to see what has been ecologically taken away from it. He terms this as the 'vandalism chain analysis'. This thinking emphasises the views of Grant & Campbell (1994) that, public opinion aside, there has never been a better time to identify environment as a core company value.

According to Werther (1995), long-term success demands a customer-driven value-based strategy. He believes that customers, in a free market environment, may change their selection criteria in the perception of the value received from products and services. Therefore, organisations should be aware of, anticipate and plan for such potential changes.

In the competitive panorama, there is considerable discussion about value-added. For example, Kaplan & Atkinson (1989) feel that value-added time is equal to processing time in which work is actually performed. Morden (1993) talks of value-adding partnerships, which are sets formed of independent organisations working closely together to manage the flow of goods and services along an entire value-added chain. He gives examples of off-shore oil platform construction as well as film and movie making. Hörnell (1992) and Kay (1993) have carried out comprehensive surveys based on the value-added analysis concept. The dilemma of value-added is that it reflects more its accounting nature than a true measure of performance and productivity. This is because its strict definition is sales less purchased goods and services, or, viewed from the other direction, labour plus capital plus profit. It has some meaning in the attempt to create wealth but little else. Although gainsharing, a group incentive and involvement system where results are shared, is sometimes based on it, as it often is in Japan, value-added presents only one economic facet. However, it should not be confused with the philosophy of value-based management which embraces all stakeholders.

Value management, which derives from value analysis and value engineering, is another limited view of the term 'value' in the name of performance and productivity. In this context, the value of any item is both variable in itself as well as in respect of the person valuing it. The quantifying

measurement or degree of value for each item is assessed on a weighted scale. Value may be based on use, cost, exchange or esteem but is always perceived in economic terms.

There has been much lip service to value, usually in a narrow sense. However, there has been little attempt to integrate it, in performance and productivity terms, to social responsibility and outcomes. This is an inevitable challenge that should be addressed by management in their strategic thinking.

## Business Excellence

According to Andersen Consulting (1994), excellence relating to world class manufacturing plants can be measured in terms of productivity and quality, where the latter, as defined by Oakland (1993), is simply meeting customer requirements. Yet, there is an affinity between quality and ethics. According to Mizaur (1993), ethics and quality are similar concepts in that they both mean 'doing the right things right'. Thus, according to Stainer & Stainer (1995), the movement towards competing on quality is a proxy for also competing on ethics. Both Nash (1990) and Green (1994) believe that ethics and business excellence are closely related. If organisations are to obtain business excellence, they should learn from the Japanese. Miyai (1992) states that productivity and quality in Japan are not a conscious issue; they are part of the in-built corporate philosophy. It is this inherent approach that should also be applied to the ethical behaviour of organisations in the West.

What is needed is to capture the potential of the workforce to become involved in building sound relationships and, for this, it is necessary to have deeply held core values within the organisation. Hence, individuals must be inspired rather than simply respond to any initiative. Within the operations arena, it is the inter-linking of the three elements of productivity, quality and ethics that can form a triadic gain in both economic and moral terms (Figure 3):

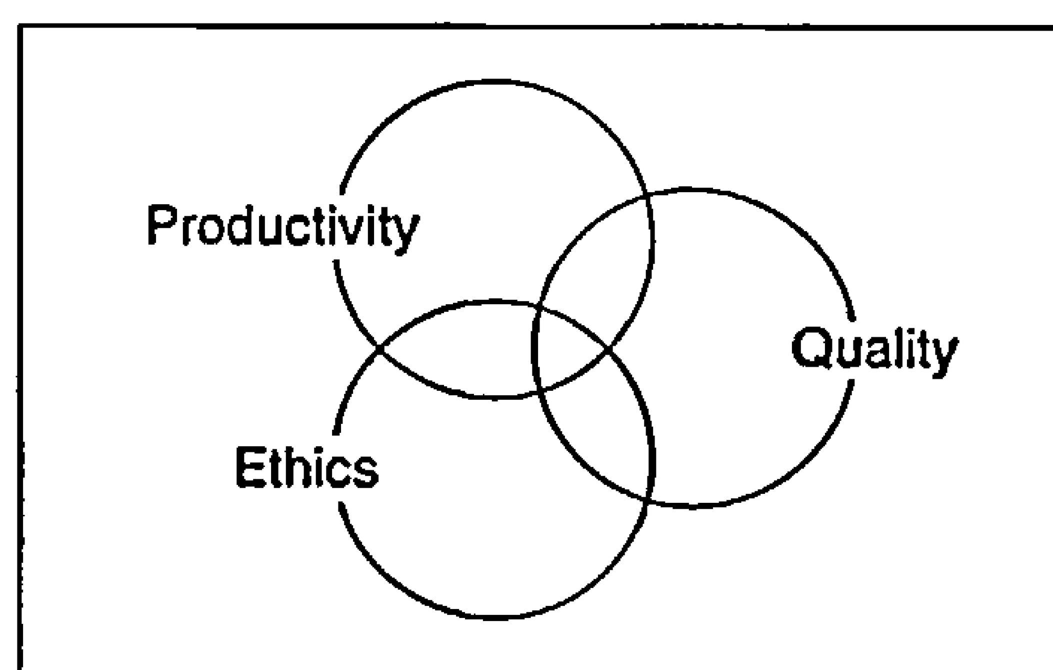


**Figure 3.** The Triadic Gain.

The RSA Inquiry into Tomorrow's Company (1995) advocates that a forward-looking organisation should utilise its stated purposes and values to develop its own success model from which it can generate a relevant framework for performance measurement. Therefore, in order to achieve

business excellence and a more meaningful indicator of value, a kinship-style index can be developed, termed the Values Index for Business Excellence (VIBE), exampled in Table 2:

**Table 2.** Values Index for Business Excellence

| Measure | Weighting |
|---|---|
| Customer satisfaction | 20% |
| Market effectiveness | 20% |
| Resource effectiveness | 20% |
| Social effectiveness | 20% |
| Workplace satisfaction | 20% |
| Total | 100% |

where:

| | |
|---|---|
| Customer satisfaction | relates to customer requirements to be consistently satisfied, including quality |
| Market effectiveness | relates to the achievement of objectives with regard to the market share and position |
| Resource effectiveness | relates to the achievement of profitability and total productivity objectives |
| Social effectiveness | relates to the achievement of objectives on ethical and environmental dimensions |
| Workplace satisfaction | relates to quality of work life |

This example of VIBE takes into consideration a family of measures, such as customer satisfaction, market effectiveness, resource effectiveness, social effectiveness and workplace satisfaction. Bach ingredient is weighted according to its perceived priority by management, simply illustrated at 20% each. An organisation's weighting scale would also be dependent upon its characteristics, structure, size and culture.

The reason for producing such a framework as VIBE is that there is no single-answer model in relation to values and business success to suit all organisations or all industries. VIBE should only be developed after reflection on the organisation's mission and objectives. It should embrace the fundamental expectations and values of the major stakeholders. It should also include enough measures to ensure completeness but not so many as to lose focus, with yardsticks being monitored as appropriate.

To ensure business excellence, objectives and goals must be feasible and attainable. According to Irons (1994) the real issue for both the development and understanding of values is to get employees involved in the creation of plans as well as in their execution. Bob Hass of Levi Strauss claims that 'a

company's values—what it stands for, what its people believe in—are crucial to its competitive success. Indeed values drive the business'. He also believes that values provide a common language for aligning a company's leadership and its workforce.

In relation to the role of organisations in a wider society, according to Cannon (1994), there are four substantive areas that must be tackled:

1. building systems of corporate ethics and values into the enterprise;
2. tackling questions of compliance and governance;
3. meeting the needs of the economically and socially disadvantaged; and
4. satisfying responsibilities to the environment.

These form part of the ultimate outcome of quality of life. They continue to present challenges to management. A value-based approach should both be short-term operational, dealing with such concerns as pollution and employee satisfaction, as well as long-term strategic, looking at the various issues of quality of life. With this philosophy, organisations would be able to pursue and sustain both business excellence and perceived corporate responsibility.

## Conclusion

Performance measurement, including productivity, should not be viewed in isolation. There should be a family of measures which needs to include those of an environmental and ethical nature. In looking at its effectiveness, an organisation must primarily develop and set out its ethical goals. According to England (1993), the personal values of managers are both measurable and important to measure. This is because these values underpin decision-making, managerial success and job satisfaction.

Business is a dynamic activity. With regard to its performance, too much emphasis has been placed on economic value such as profit or cost reduction. However, management must view a wider horizon embracing societal and environmental issues. Through the eyes of the customer and society, it can formulate indices in relation to quality of goods and services, social effectiveness and environmental responsibility. It can also consider the benchmarking approach, which is a systematic comparison of performance of an organisation against that of other organisations, usually with the aim of mutual improvement towards excellence, to measure its relative success. This approach is being widely used in areas such as productivity and quality, and can well be constructed to embrace the sensitive areas of ethical and environmental responsibility.

It is the individual within the organisation who makes the social or moral decision, and is often delegated the discretion to make that decision. However, it is the action and consequence of that decision that is judged by society. Decision-making has become more of a methodological process, as exampled by IBM's Reference Card 'Thinking it Through' put forward by Cleaver (1992). The dilemma that is often faced by managers is the degree to which there may be a trade-off between the efficient strategy and the moral strategy.

Organisations that wish to be socially responsible must not only consider

the outputs of their goods and services. They must also be aware of the downstream outcomes that affect the quality of life for present and future generations. John J. Mackowski, Chairman and CEO of Atlantic Mutual Companies states that: 'One thing that concerns me about the future is the preoccupation with profits we see in the financial area, as opposed to concern for people and values. One of the reasons for our competitive malaise may be that we have lost sight of what organisations are supposed to do'.

A value-based approach can provide a common structure for socially responsible organisations in their analysis of performance and productivity management. The main benefits will be an improved corporate image and a better physical and moral environment, both in and out of the workplace. Above all, it can provide a kinship amongst the stakeholders and lay the foundation for business excellence based on sound business ethics. The purely financial model of any organisation may not be appropriate for the twenty-first century.

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## Article 5

# ETHICAL DIMENSIONS OF RE-ENGINEERING

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# Ethical dimensions of re-engineering

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- *Re-engineering is examined from a human and moral perspective.*
- *The human facets of re-engineering are featured and shown to be the major challenge for management in business transformation.*
- *Relevant ethical issues are highlighted and their relationship to the success of change management is demonstrated.*
- *A stakeholder value-based management approach is advocated as a strategic future direction, combining both economic and ethical criteria.*

## *Introduction*

In business, any change, especially fundamental change, is an almost inevitable step for management and must be, therefore, anticipated and planned. As far as the employees are concerned, it is important for them to know the significant factors that drive such a transformation, be they economic, technological or sociological. The perception of 'time for change' must always be positively linked to 'time for opportunity'.

According to Hammer and Champy (1994), re-engineering can be defined as the essential rethinking and radical redesign of business processes to achieve dramatic improvements in critical contemporary measures of performance, such as cost, quality, service and speed. Their business system diamond is a continuous cycle of values and beliefs, business processes, jobs and structures as well as management and measurement systems. However, their approach seems to still relegate the human side as a secondary consideration.

Does re-engineering necessarily mean a threat of redundancy? To most people, there is a close relationship between these two terms and, therefore, the perception of the meaning of the word re-engineering is all important; it should translate into the forward-looking challenges of change and mobility.

> *Does re-engineering necessarily mean a threat of redundancy?*

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The problem is that, in most re-engineering programmes, there is much employee suspicion that it is a cover-up for laying off staff because it is a simplification of business processes for increased productivity. Unfortunately, productivity itself is often misunderstood as a prescription for fewer people doing the same amount of work but, on the positive side, increasing it can mean freedom for employees to carry out more value-added jobs. It is often the lack of effective communication and training for both management and staff which seems to be at the heart of the failure in implementation.

Managers are unlikely to achieve success in their re-engineering efforts if they underestimate the human facets. At the macrolevel, Rifkin (1995) believes that corporate re-engineering is only in its relative infancy and has already led to increased unemployment, consumer purchasing power dropping and domestic economies being adversely affected. He predicts that business is heading for a near workerless world — this may be poignant even if over-exaggerated. However, his perspective is supported by Charles Handy, as reported by Rapoport (1994), who considers that re-engineering has become the polite word for downsizing. In fact, the trouble with re-engineering is that it is often carried out unsatisfactorily and leaves individuals shattered, whether those left behind or made redundant. Indeed, in a survey by Doherty and Horsted (1996), they found that there is decreased morale, motivation and confidence as well as increased scepticism, stress and insecurity in the retained employees who are the survivors of the re-engineering effort.

If re-engineering is to be successful, not only in business performance measures but also in the quality of worklife, it must be founded on mutual trust, genuine commitment and improved process mechanics. If business systems are to be redesigned, it is important to redesign also the jobs and procedures, ensuring that the people are trained to perform new and perhaps different tasks, thus removing the potential barriers to progress. Primarily, re-engineering should not be seen as cold and calculating. As much as possible, stakeholders should be involved, sharing knowledge and examining the progress in an attempt to alleviate resistance to change which should be anticipated and minimized by adopting relevant strategies.

*Re-engineering should not be seen as cold and calculating*

In the United States, Mumford and Hendricks (1996) have shown that re-engineering, the corporate panacea of the early 1990s, is widely perceived as a disastrous business experiment. Its major failure relates to the fact that many of its followers understand neither people nor change management and individuals' core values are often ignored. Good business equates with good ethics and, therefore, when implementing re-engineering, the ethical dimensions must be investigated to the full if success is to be attained. Basically, ethics is concerned with moral obligations and social responsibility. It is an essential factor in the well-being of the individual, the organization and its environment. In the global competitive scenario, the enterprise should propound a corporate culture for sound ethical behaviour and sustain that reputation.

## The human side of re-engineering

According to Willmott (1995), the architects of a re-engineering philosophy assume that either employees will unequivocally welcome the changes or they will be persuaded by top management to support them. But, often, there is little or no discussion of why or how, and indeed where, managers and staff may directly or covertly oppose any demands for change. Therefore, the introduction of any change causes a dilemma for human resource managers who will be tested to the full in relation to their own professionalism and core

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values as well as those of the organization. Certainly, there must be full consideration of the human element from the outset.

The re-engineering of processes brings about profound changes in work habits, work flow patterns and structures. People at all levels of the organization are required to readjust their thinking and shift from their present comfort regions to radical new pastures that are intended to yield performance improvements. They will react to the change depending on how they would be affected. As far as Edosomwan (1995) is concerned, there are four types of individuals who react in different ways to changes generated by re-engineering:

- those who do everything in their power to reject the improvement as it creates an extra burden for them
- those who do all the talking and none of the doing
- those who spend their energies wishing someone else or some new system will automatically do the work
- those with a keen interest in improving organizational performance

Within this scenario, the undoubted strategy should be to educate all employees on the need for process re-engineering, highlighting the potential benefits to be reaped. It should provide the necessary vehicle for everyone to participate in the improvement process and to be rewarded for that improved performance. Without actual developments in the reward systems, the proposed change is likely to encounter difficulties in its realization. The reward philosophy should be an integral part of the wider human resource organizational strategy.

In managing business processes, altering people's behaviour is difficult enough, as pointed out by Armistead and Rowland (1996), but changing underlying values takes even more time or may not even be possible at all. Consequently, managers should be aware of the business culture that they are attempting to develop and nurture. Hilb (1996) claims that effective business process re-engineering, including the human resources perspective, should not be considered as 'lean and mean' but 'lean and happy'. Paradoxically, effective managers who undertake change will often gain power rather than lose it. As advocated by Oram and Wellins (1995), it is the employee morale and momentum that need careful management as getting individuals to feel part of something ultimately successful is an essential ingredient in the pathway of reform. Peppard and Rowland (1995) emphasize that it should be understood that people are the means by which any process lives. They believe that the key dimension on thinking about how to best utilize human resources of an organization is to recognize that their tasks have two focused facets which relate to not just doing but also improving. The improvement stems from learning which must be facilitated on an organization-wide scale as an integral part of its operations thrust.

A strategic perspective of a business should be that its human resources must be perceived more as an asset than a cost, with the latter remaining only a traditional conviction. Emphasis on training and empowerment is essential to galvanize both motivation and commitment. Western companies, unlike their Japanese counterparts, have often deemed their employees as the first resource in which to reduce costs and, in doing so, they reveal short-sightedness rather than strategic vision. As Willmott (1994) claims, many organizations continue to neglect the human dimensions of re-engineering, reflecting an increasing sense of either confidence or desperation amongst corporate executives and their consultants. This opinion is supported by May and Kettelhut (1996) who show that re-engineering efforts generally fail because the human factors that affect organizational transformation are

*75% of all re-engineering projects fall short of expectations*

not taken into consideration. The employees' emotional reactions to job changes and consolidated work loads frequently cause the programmes to be eventually abandoned despite the fact that the initial implementation was a relative success. Romney (1994) affirms that 75% of all re-engineering projects fall short of expectations and that there are four main challenges not being currently addressed: resistance to change, time requirements, scepticism and job losses. However, a further factor of considerable importance is that of stress caused by the impact of change. It is often compounded by insecurity and fear of the unknown.

Scrutinizing re-engineering programmes and their effect on employees' resistance and ability to change, Evans (1994) suggests that methodology itself is not the technically driven exercise that many consider it to be. The issues of staff education and the identification of customer needs are regularly underestimated. Wellins and Rick (1995) describe the re-engineering success that has occurred embracing human factors, that of The Royal Bank of Scotland. Apart from technical performance success, the bank ensured that its management involved human resource professionals widely in their re-engineering projects, recognizing that it is necessary to identify the behavioural skills needed to achieve and sustain successful change. Complementing this philosophy, Coulson-Thomas (1996) underlines that defining, agreeing and building appropriate roles, competences and behaviours are the keys to success in organizational transformation. He believes that, too often, people develop new models of the business and redesign processes whilst doing little, if anything, to enable the workforce to adapt. If there were better information and active participation in organizational change, there would be fewer individuals who would consider themselves as victims of the re-engineering effort.

In a report by Kinnie *et al* (1995) into *People Management Implications of Leaner Ways of Working*, they demonstrate that, common to all lean manufacturing exercises, the lack of success is partly due to neglect and failure to address the human resource implications and the contributions of human resource policies. In a parallel study by Rees *et al.* (1995), it is claimed that personnel issues are seen as being at the heart of the change but that little detail exists on what is required from the employees. They suggest that human resource management must incorporate the roles of supporter, interpreter, champion and monitor, involving such tasks as:

*Personnel issues are seen as being at the heart of the change*

- the identification of technical solutions and support for the implementation of leaner systems
- explaining and managing the use of new systems to fellow employees at various levels
- Identifying and articulating the central importance of the vital business resource represented by employees and their skills
- monitoring and advocating the continuous need to sustain commitment

There is no doubt that the human factors are the missing ingredients for sustainable change through re-engineering. The subject area seems to possess a heartless ring to it. This is mainly because there must be genuine concern for people and values and, thus, organizations should not neglect good business ethical practices. In short, a value-based management approach, recognizing stakeholders' expectations and perceptions of values, would provide, at each step of the re-engineering programme, a common theme for socially responsible enterprises. Thus, the organization's own success model could be developed through the improvement of both financial and non-financial performance criteria.


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## *Ethics and change*

Performance criteria should be both economic and ethical in nature. Business excellence should reflect the expectations and values of the major stakeholders, embracing the following five key objectives:

- customer satisfaction
- resource effectiveness
- employee satisfaction
- market effectiveness
- social effectiveness, embracing ethics and the environment

Within this approach, unless organizations are careful in their strategic decision making, French (1995) claims that there are ethical 'costs' of re-engineering in terms of morale and performance. The starting point remains the lack of discussion and communication. As reported by Oram and Wellins (1995), Rank Xerox were successful in their re-engineering programme because they had a clear long-term vision and a strong leadership. They believed that it is not possible to over-train or over-communicate. As far as they are concerned, world-class productivity results very much depend upon three fundamental elements: process improvement, people and empowerment, with effective information linking them. Yet, in the majority of organizations, employees appear to be systematically excluded from the decision-making process and, eventually, are being manipulated to bring about a desirable end. Organizations that are lured into adopting re-engineering must support their programmes via an educated and well-informed workforce which is given responsibility through empowerment. Employees who are empowered should benefit not only themselves through job satisfaction but also their employer through continuous productivity and quality improvement. In consequence, they could have a greater sense of purpose which can effectively translate into advancement in performance yardsticks. It must be emphasized that corporate change is relatively valueless unless it seeks to empower. It is basically through efficacious empowerment that the three types of individual performance indicators of productivity, innovation and loyalty, as propounded by Mathis and Jackson (1991), can be achieved so that organizations can prosper.

Whilst re-engineering may be commended to achieve organizational goals, the related ethical issues that must be addressed can be summarized schematically, as follows (Figure 1):

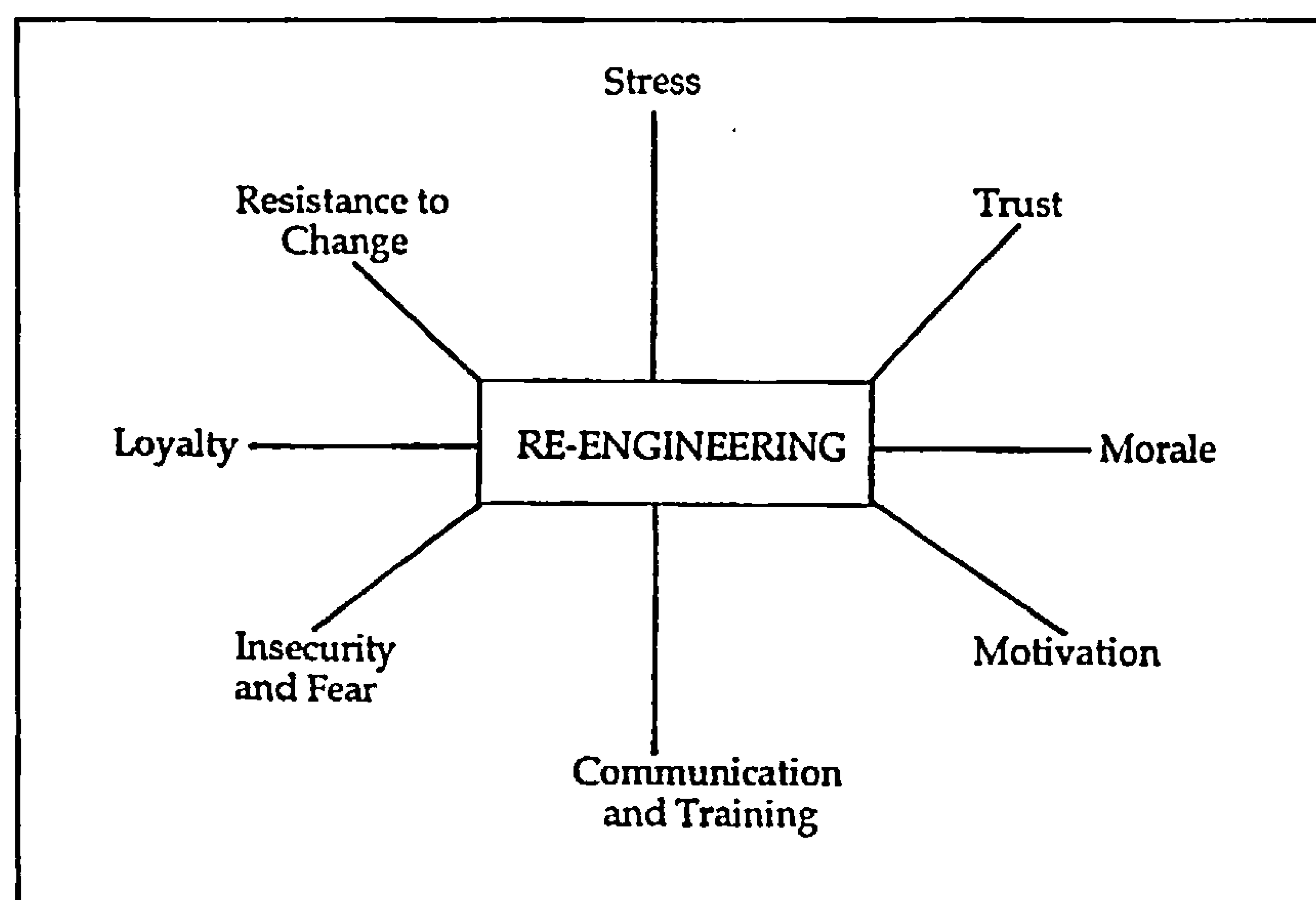


Figure 1. Re-engineering and related ethical issues.

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These ethical issues emanating from corporate restructuring can cause shockwaves in the quality of worklife, which is seen as one of the ultimate outcomes of any business process. Therefore, the challenge is to ensure the provision of an environment, in an ethical setting, which will motivate the natural latent spirit of the employees, thus benefiting both the organization and the community. It is through such a corporate culture that the values of managers and employees alike are shaped and pointed in a common direction. Often what is at stake is the integrity and moral health of individuals within the workplace.

Re-engineering and social responsibility need not be alien to each other. A comparative success story in relation to re-engineering is that of the American corporation, Corning. In their operations, they attempt to combine re-engineering with social responsibility — an apparent contradiction in terms. To overcome one of the most significant causes of re-engineering failure, namely the lack of consistent commitment from the top, they ensured that senior managers sponsored each group of re-engineers and the company's president took personal responsibility for the programme. Rather than imposing the discipline on a hostile workforce, they encouraged workers to conduct their own re-engineering and ensured that the re-engineers had easy access to senior management, keeping them fully informed. In order to avoid the quick-fix approach which often destroys corporate morale, they refused to announce any immediate redundancies. They provided workers with the opportunity of stress counselling. In ethical terms, they firstly made sure that re-engineering applied to management as well as to workers, which means that all levels of the hierarchy were involved and, secondly, they considered change evolutionary rather than revolutionary, bringing about improved productivity. However, the story is not finished yet and may not be generally applicable but it does illustrate that there can be important ethical dimensions to re-engineering both in theory and practice.

It is paramount that re-engineering is carried out within the bounds of the organization's values statement and code of ethics. In this way, mutual trust as well as the engendering of the perception of fairness can be developed. For successful implementation of the changes required for re-engineering, management must be aware of, and sensitive to, the psychological impact on employees, as failure to do so would result in an unsatisfactory situation and a gradual build up of resistance to change.

In anticipating change, the organization should establish its goals and objectives as well as formulate its policies and actions. Whilst managing it, there are certain factors that mark success, especially those moral issues related to leadership, openness and commitment. Consequently, the challenges can be better understood by utilizing a three-stage model for implementing change, that is before, during and after the re-organization process.

**Before**
- warn of impending change so that employees get used to the notion
- timing is all important
- explain reasons for change
- need for the change must be perceived by **all** concerned
- the more people are involved, the more acceptable the change is
- the communication must be precise and unambiguous
- change should be as structured as possible
- ensure employees are aware of the benefits
- provide incentives
- time for change to be perceived as time for opportunity

**During**
- change to be performed in stages
- focus on retraining
- ensure effective communication
- link with personal and professional goals
- listen and help with problems encountered
- minimize interference with basic hygiene factors, such as holidays, working groups, shifts


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— continuously monitor the effect of change on the employees
— change needs to be validated with feedback to employees
— be tolerant and supportive
— encourage employee contribution

**After** — ensure feedback communication
— show that employees are valued and appreciated
— praise and reward
— develop a climate of change acceptability
— devise employee assessment in relation to the learning curve
— encourage employee/team participation for future projects

As the 21st century approaches, it is no longer enough in today's competitive world just to react to change and adapt. Managers must visualize the future and, furthermore, they should engineer changes to get there. Creativity and innovation are essential yet they must have a broad understanding of ethical dilemmas. The responsibility to make the right choices is becoming progressively more salient. It is the individual within the organization who makes the social or moral decision and is often delegated the discretion to make that decision. However, it is not only the action but also the consequences of that action that is judged by society.

Therefore, the dilemma often faced by managers is the degree to which there may be a trade-off between the efficient and the moral strategies. Organizations that wish to be socially responsible must not only consider the outputs of their goods and services but also be aware of the downstream outcomes that influence the quality of life that affects both today's and future generations. According to Stainer and Stainer (1996), there must be a stakeholder approach as the purely financial model of any organization may not be appropriate in the future. Ethics will certainly be at the fore of decision making and become the new bottom line objective.

## Conclusion

In the competitive arena of operations management and strategy, productivity and perceived customer value are vital ingredients. Productivity can be seen as driving down unit costs whilst quality is simply satisfying customer needs. In order to be world-class, organizations should excel in both areas. To be able to achieve success, they must focus on the tasks and how they fit together to formulate the operational processes. As Ballé (1995) underlines, this means mobilizing the knowledge and experience of the people on the job as well as making them feel a significant element in change management.

To make re-engineering lessons sustainable requires a fundamental rethink. Workers should not be considered as human tools that managers direct towards one task or another but as human assets benefiting from their intelligence. To institute change, managers must let on-the-job staff make their own choices about how they perform their work in an efficient and effective manner through the empowerment philosophy. This is because empowered teams' responsibility is to find the best way to carry out the job, utilizing the full potential of individual and collective intelligence. This clear methodology must be set in an organizational culture that is perceived to be both just and ethical.

Re-engineering should be an integrated process, taking into account employees' feelings, capabilities and personalities as important dimensions in the operations domain. According to Hammer and Stanton (1995), its purpose is to eliminate work by finding a better way of doing it rather than eliminate people or jobs. In order for re-engineering to be successfully implemented, it is often necessary to transform organizational values and, therefore, widely shared and deeply held values would represent an alternative to traditional management control. The role of managers is most critical in the creation and implementation as well as the sustaining of good ethical behaviour by

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infusing their employees with the desire to perform in an ethical manner. In this way, the seeds of a good ethical corporate climate might be convincingly sown. As the *Financial Times* (1995) quotes, 'it is part of a civilised society that people, inside and outside business, act morally. No more and no less.'

Businesses that would want to thrive in the next decade and beyond must look for new perspectives. They would need to recognize that a shift in ethics has occurred and that value-based management is essential with the vital two elements being integrity and mutual trust. When considering any transformation process, management must concentrate its efforts in interlinking the social, technical and behavioural facets. Thus, organizations which embrace re-engineering to streamline operations must address the human side of the concept in order to generate sustainable growth; this is because many organizations are finding that doing good and performing well go together. The recognition that business excellence and business ethics are the twin bedrock of success will be the hallmark of the organization of the future. Within this reasoning, as Oram and Wellins (1995) simply advocate, the impact of re-engineering on human resource systems and processes is particularly profound as, in the aftermath, the organization will never be the same again.

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## Article 6

**THE ETHICS OF TAX PLANNING**

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A. Stainer & A. Segal as co-authors

# The Ethics of Tax Planning

Alan Stainer, Lorice Stainer and Alexandra Segal

**Any system of taxation depends on a substantial degree of compliance from the taxpayer. But do ethical considerations stop at obeying the letter of the tax law, or do they drive one to take a more critical and socially responsible attitude towards tax avoidance as well as evasion?** **Dr Alan Stainer is Head of Engineering Management at Middlesex University, Bounds Green Road, London N11 2NQ, and Founder Director of the International Society for Productivity & Quality Research; Lorice Stainer is Senior Lecturer in Business Ethics at the University of Hertfordshire Business School and a Business Ethics Consultant; and Alexandra Segal is a Chartered Accountant, Taxation Manager with Keelings Chartered Accountants, London, and a Taxation Consultant.**

One of the most under-estimated and intriguing issues of modern business is that of the ethical dimensions of taxation and tax planning. This is because most businesses regard tax as their biggest headache. Surprisingly little has been written or researched on the subject so far, and yet it encompasses two major pillars of contemporary business: profitability and morality. Business excellence and business ethics should go together as exampled in the examination by Keogh (1988) which shows how the Business Roundtable, a group composed of the chief executive officers of the 100 largest US-headquartered organisations, concluded that there is a deep conviction that a good reputation for fair and honest business is a prime corporate asset which all employees should nurture with the greatest care.

## Taxation ethics

Walters (1990) propounds this same ethos for the accounting profession. Regarding related ethical issues, and especially those of taxation, Dox (1992) believes that today's tax practitioners must be agile tightrope-walkers, able to balance a host of divergent demands. They must deal with conflicting commands from the client and tax authorities and at the same time obey their own professional codes. The Institute of Chartered Accountants in England & Wales (ICAEW) (1995), in its publication "Professional Conduct in Relation to Taxation," gives a set of ethical guidelines for the taxation practitioner. These deal largely with the question of how much needs to be disclosed to the tax authorities. They also take the standpoint that the tax adviser is an agent obliged to act in the best interests of the client and not for society as a whole. The implication is that the client's tax liability should be minimised subject only to the constraints of honesty. Yet the word honesty is highly subjective and can mean different things to different people. Paradoxically, Hanson *et al* (1992) believe that minimising tax liability may not be fully compatible with following a code of professional conduct and ethics.

As Lynch (1995) correctly states, tax practice is no different from any other professional endeavour in that it should be conducted in accordance with the highest ethical standards, backed by the application of a considerable degree of skill, know-how and competence. It is vital, when discussing moral issues, to ensure that the clearest possible definitions are used. This is because some writers can confuse the concerns through a lack of understanding of the strategic business processes.

Tax planning is designed to arrange an individual's or an organisation's affairs in order to maximise after-tax returns. Needless to say, businesses are substantially judged on their performance in relation to their earnings after tax and therefore gain respect within their environment by minimising their tax

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*a degree of evasion or avoidance*

liability. When taxation and its planning are discussed the immediate interpretation of their meaning is that they relate to a degree of evasion or avoidance. By definition, evasion is illegal and hence unethical. In the main, avoidance is acceptable, as it reduces tax liability by whatever legal means possible and therefore is basically perceived as ethical. The former can lead to prosecution and imprisonment whilst the latter often reflects the client's chagrin. But, as Lynch (1995) claims, life and certainly tax are not as simple as that. James and Nobes (1996) maintain that, on the one hand, there are degrees of culpability in tax evasion, whilst in tax avoidance there is sometimes a distinction to be made between the straightforward mitigation and the complex artificial schemes of minimising tax payments. The latter is frequently a disliked means of avoidance by clients. The hybrid word of 'avoision' implies that both evasion and avoidance may in some circumstances be indistinguishable, hence there is not just a fine line between avoidance and evasion but a foggy grey area. The ultimate effect is the inevitable loss of revenue to the tax authorities and consequently to society at large.

Several of the ideas presented by Jackson (1996), in relation to ethics and taxation, can be challenged. She states that paying tax experts to advise on legal ways of cutting down on the tax liability is sound business strategy and ethically respectable. In this way there is no abuse of trust in a business paying no more than is legally required. She believes that, if there are legal loopholes overlooked by the legislators, it is their job to remove them and that there is no need for honest business people to feel any obligation to call attention to these loopholes. However, she advocates that considerations should be quite different if an organisation, through a loophole, legally discharges toxic waste, endangering the health and safety of society. However, as Stainer and Stainer (1993) claim, there needs to be in business a balance between the legal, profitable and ethical, where legal should be the lowest denominator of acceptable ethical behaviour. According to Macintosh (1995), it is the socially acceptable behaviour syndrome that is entwined with the so-called ethics of profit manipulation. Therefore, surely, basic ethical behaviour should be uniform whatever the circumstances, and social responsibility should not just relate to particular issues, such as health and safety, but to every aspect of business.

What is really required in ethical business discussions is a stakeholder philosophy. The RSA Inquiry into Tomorrow's Company (1995) supports this view and recommends the inclusive approach, which implies acknowledging the recognition of stakeholders and joint relationships. As Evers (1996) notes, such a recognition underpins much of the thinking in business ethics, promoting what Mahoney (1995) describes as the ethical quality of business. Moreover, Stainer and Stainer (1996) advocate a value-based approach to business performance through a Value Index for Business Excellence (VIBE). This index embraces five key elements for success: customer satisfaction, market effectiveness, resource effectiveness, social effectiveness and workplace satisfaction. This stakeholder methodology contrasts distinctly with that of Sternberg (1994) who, in discussing business objectives and business ethics, maintains that the major objective is the maximising of long-term owner value.

## Tax planning in context

Fundamentally, taxation is merely the transfer of wealth from the people's pockets to the public purse. The after-tax income is determined by both the level of the tax rate and the efficiency of the tax collection system. It is this income which regulates the standard of living for the individual and generates the opportunities and challenges for a business. Tax planning should be, therefore, viewed from a societal standpoint as well as one of self-interest.

Tax avoidance, which has an unfortunate connotation to it, is primarily the lawful manipulation of affairs. Tax evasion, defined by Tamari (1995) essentially in terms of "human greed", is the illicit side of that manipulation. Accountants and tax practitioners refer to avoidance manoeuvring as tax planning or tax mitigation which emphasises its legality and hence its perceived ethical acceptance. However, Sandford (1973) stresses that the term "avoidance" should be used to mean something which is contrary to the spirit of the law and which accomplishes the pre-tax objectives. James and Nobes (1996) propound the view that there is little hard information about avoidance or evasion and that there are no accurate quantitative estimates of their importance. Yet the tax authorities are continually worried by this state of affairs and the search for loopholes by tax advisers is continuous. It appears that, if there is any reduction of avoidance, it is probably not due to any ethical restraint on the part of the taxpayers but is more likely a result of the development


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and refinement of the Ramsay Principle (1982), which seeks the reality behind some "legal" arrangements which are so artificial that they might be seen as evasion.

There are many reasons why tax avoidance and tax evasion take place, including high tax rates, imprecise laws and lack of deterrents. With higher tax rates, organisations or individuals may find it worthwhile to spend more time and money on advice, perform more complex manoeuvres and take greater risks, in order to avoid or evade tax liabilities. Hence, one of the main fiscal arguments advocated is for government to lower tax rates so that avoidance or evasion become less attractive. In relation to imprecise laws, these will always exist, with the speed of finding loopholes often disturbing the legislators. The deterrents seem to consist of imposing relatively light penalties and charging interest, and these are often perceived as small in relation to the potential financial gains of non-compliance.

As Punch (1996) declares, tax evasion and tax avoidance by individuals and companies occur on a massive scale and are highly damaging to the state's finances. Revenue services generally present examples of regulatory agencies possessing quite extensive powers which are nevertheless used most selectively and quite cautiously. In the United Kingdom the Inland Revenue rarely undertakes prosecutions unless the case is "serious" and where preliminary investigations have led only to persistent, uncooperative denials. The social penalty of getting caught, with the possible adverse publicity, could be the most powerful deterrent. The social stigma of tax evasions obviously varies from country to country. For example, in the United States of America they are regarded as a national sport and in Italy as a "moral" duty. Therefore, how can organisations meet tax demands in countries where tax evasion is rife? As Argandoña (1994) points out, managers of ethical businesses count on paying taxes from the outset and prepare their plans so that being fiscally correct is not a burden but an advantage. However, if the taxation process within a country is generally considered to be unfair or inefficient, this could lead to an increased desire to avoid or evade tax, thus making such activities more socially acceptable.

In recent years tax practitioners have been overwhelmed with many and complex changes in both standards and laws in relation to taxation. Moreover, the positive emphasis on ethical and societal issues has been gradually evolving. Today accountants need not only to nurture their technical and professional skills, but also to understand potential ethical issues. The challenges of business ethics are much too important to be overlooked or put to one side. Moral considerations should be inherent in the business culture. Organisations and individuals should have an obligation beyond that required by law or through economic efficiency.

## The ethical dimension

According to Prodhan (1994), ethics can be defined as a mode of human behaviour incorporating ends, norms, good, right and choice in dealing with others. Finance is often seen as a value-neutral positive discipline, promoting efficiency without regard to the social consequences which follow. Such a disregard is manifest, in general, in unethical behaviour in business. Boone and Kurtz (1987) believe that businesses face numerous ethical issues every day, and in relation to investors and the financial community there is probably no place where the public expects a greater level of business morality than in the arena of financial transactions. Executives are expected to exhibit the highest standards of ethical behaviour concerning financial practices in order to justify the public trust placed in them. As far as Hosmer (1991) is concerned, there must be a gradual climb up the hierarchical pyramid of managerial responsibilities from operational, to functional, technical, conceptual and ultimately to ethical. The key to good business performance, according to Creelman (1996), is to discover how human, organisational and customer intellectual assets can be balanced so that they can combine to create value.

Tax planning, synonymous with tax avoidance, brings about different reactions in different individuals, even judges. Three judicial landmarks for tax planning, reflecting historical development, are as follows:

(1) The dictum of Lord Clyde (1929) that the taxpayer is "entitled to be astute to prevent so far as he honestly can the depletion of his means by the Revenue".
(2) The statement of Lord Tomlin (1936) that "Every man is entitled, if he can, to order his affairs so that the tax attaching under the appropriate Acts is less than it otherwise would be".
(3) The opinion given by Lord Simon of Glaisdale (1974) that "Disagreeable as it may seem that some taxpayers should escape what might appear to be their fair share of the general burden of national expenditure, it would be far

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more disagreeable to substitute the rule of caprice for that of law".

Thus it can be seen that ethics and tax planning are controversial matters, even in law. And in looking at the ethical issues in the performance of the practice of tax Dox (1992) contends that contemporary tax practitioners are faced with a myriad of conflicting demands as well as with a plethora of penalties from the tax authorities. The reason for these matters of contention is that some clients are more than willing to step into the grey areas. However, the tax practitioner must have an acceptable comfort level with both the tax strategy and the client response before recommending any tax planning opportunities.

The pathway is certainly not clear when it comes to artificial avoidance schemes. As Lynch (1995) indicates, accountants should advise on them and point out, as their duty, the associated risks and uncertainties, as well as possible law changes which may negate them, without promoting them or influencing the clients. This is because, if failure of schemes occurs, the relationship between client and accountant would be greatly affected adversely. As regards the morality of such schemes, this must be a question solely for the taxpayer rather than the tax adviser because of the subjectivity of what is or is not moral.

Several studies have been carried out in relation to ethical issues and their interaction with taxation from the point of view of both the tax adviser and the tax payer. In relation to the former, in their empirical results Finn *et al* (1988) learn that in the United States of America the most difficult ethical problems encountered by Certified Public Accountants (CPAs) are client requests to change tax returns and commit tax fraud and requests to alter financial statements as well as conflicts of interest and independence. In relation to the latter, Topolnicki (1994) reports a survey conducted by ICR Survey Research Group, also in the United States, which shows that nearly one-third of Americans would cheat on their income tax and that almost two out of five would be willing to use a shady commodity broker to earn extra dollars. Longenecker *et al* (1989A) communicate a nation-wide survey of managerial and professional business personnel regarding business ethics, with 2,156 respondents. One of the interesting conclusions was that the younger respondents, under the age of 40, were significantly more permissive in their views regarding ethics in a variety of situations. These include cases involving padding expense accounts and evading taxes, and yet the majority reported no pressure to act unethically. The same authors, Longenecker *et al* (1989B), look also at the difference in ethical behaviour between large and small businesses. The small company respondents express more stringent ethical views on topics such as faulty investment advice and misleading financial reporting. However, they tolerate the padding of expense accounts, tax evasion, collusion in bidding and insider trading more than do the large firms.

*younger respondents significantly more permissive*

Reckers *et al* (1994) demonstrate that the development of tax decision-making models has focused on economic and behavioural factors affecting compliance, with tax ethical beliefs being an overlooked factor. The results indicate that tax ethics are highly significant in tax evasion decisions and may be one of the missing variables in tax decision-making models. In the same vein Erard and Feinstein (1994) declare that conventional models of tax compliance emphasise the fact that tax payers make strategic tax reports through under-reporting income to the extent that this behaviour is financially rewarded. In contrast to this view, their empirical evidence suggests that many taxpayers are inherently honest, reporting truthfully regardless of the incentive to cheat. A game-theoretic model is presented of tax compliance which includes honest and potentially dishonest taxpayers. To include the former alters the model which thus leads to much-improved empirical predictions and somewhat different and novel policy implications. The significant factors that may affect the decision to report in an honest manner are twofold: firstly, the taxpayer's perceptions about the fairness of the tax system; and secondly, the taxpayer's reactions to government activities, policies and personnel.

On the European scene, Sorell and Hendry (1994) describe an example of Italian taxation practice where act utilitarianism seems to work better than rule utilitarianism. By convention, businesses in Italy under-declare their liabilities to tax and the negotiations then take place, resulting in businesses agreeing to pay more tax. A multinational enterprise that was new to Italy, calculating its tax liabilities correctly and honestly the first time, fell foul of this arrangement, as it was taken to be under-declaring and hence was required to pay a tax bill higher than it should have. Act utilitarianism might have recommended compliance with accepted Italian practice rather than with the rule of telling the truth. But rule utilitarianism comes into its own when what is in question is the claim of utilitarianism to be a moral theory.



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Argandoña (1994) observes that in 1991 a number of large organisations in Spain were accused of using false invoices to avoid payment of value-added tax (VAT). In consequence, several companies were discovered whose principal, and even only, business was to write out those false invoices, charging a price for this so-called "service". The ethical problem arose in that the main motivation of the accused companies was not VAT evasion but the need to justify important payments that could not be otherwise justified before the auditors. This was because these payments were made to political parties in order to win public work and public procurement contracts. The ethical dilemma lay in the fact that the companies had to pay a certain percentage of the amount of the public contract to the political party, not for immorally winning a contract by illegal means, but just for being awarded a contract which they won fairly. It was then a case of extortion, but a very special one, in that it was an indirect contribution to public, semi-official corruption.

In the United Kingdom, tax avoidance practices of dubious ethical standing are often generally accepted. Such cases include bonuses being paid by businesses in kind rather than cash, to reduce extra national insurance contribution - a loophole partially closed – and the "bed-and-breakfast" practice for reducing capital gains. There has been considerable criticism that the United Kingdom tax system is becoming increasingly regressive, as reported by the Institute of Fiscal Studies (IFS) (1997). To alleviate regressiveness organisations should be paying more tax and spend less effort on tax avoidance schemes. A regressive tax is where the marginal rate of tax is less than the average rate, so that the proportion of income taken in tax falls as income rises. A salient example was the poll tax – the ultimate regressive tax – which was abandoned eventually because of its perceived unfairness. Heady (1993) points out that any suggestion for tax reform, such as the poll tax, is often judged by economists in terms of economic efficiency versus fairness. Other examples of regressive tax comprise that levied on tobacco and beer, where the poor and the rich consumers pay the same tax for the goods. However, it is the poor who spend a greater proportion of their income on such items. This syndrome contrasts with what Adam Smith proposed over two hundred years ago, that people's tax payments should be in proportion to their income.

Because of other considerable pressure from major stakeholders, for most organisations the concept of ethics will remain an issue that needs to be addressed and continuously taken seriously. The tax accountant will always be affected by the professional standards and codes, the organisation's policies and his/her personal integrity. The Institute of Chartered Accountants in England and Wales (ICAEW) (1996), in its Guide to Professional Ethics, states that integrity implies not merely honesty but fair dealing with truthfulness. Surely, ethics is a key factor to businesses for both sustained profitability and a good reputation. As Blanchard (1992) asserts, "Being ethical requires that you be committed, especially when it is not convenient, popular or lucrative to do so".

## Conclusion

According to *The Economist* (1997), anyone interested in power tends to be interested in tax, and the bureaucrats who run the European Union (EU) are no exception. Their efforts in the past to harmonise taxes have had little success, chiefly because they require unanimous approval of EU members who remain jealous of their fiscal sovereignty. But tax is firmly back on the EU's agenda and the new cry, heard from Germany, France, Italy and Belgium, is for an end to what they call "unfair" tax competition. Such competition is exampled by Luxembourg, enticing German savers with the lure of tax-free interest income. Mario Monti, the current single-market-commissioner, would like to see a "code of good conduct" to stop harmful tax competition. However, who decides what is harmful? It seems that the ethics of tax and its planning is being taken seriously by the European politicians and consequently could have an impact on the European business culture.

*tax is firmly back on the EU's agenda*

Clarke (1990) correctly argues that in any country the tax authorities are dependent on a substantial degree of willing compliance from the taxpayer in order for the system to function effectively. Furthermore, the system would involve grotesquely expensive operations if it were to have resources for comprehensive rather than selective enforcement. In effect, even control agencies with substantial powers may use them cautiously because they perceive their role as revenue collectors. They believe that severe sanctions in a democracy are not an effective deterrent, and that negotiation and settlement, rather than prosecution, are a more effective way of eliciting compliance. It seems that the

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bottom line as far as tax planning is concerned is honesty. In the United Kingdom, the importance of ethics of tax is likely to accelerate in the future, especially with the introduction of the self-assessment approach to tax collection.

Tax planning must be exercised in an atmosphere of integrity, mutual trust and, above all, a good ethical climate. Tax practitioners must be objective in their approach to tax planning, as well as perform their task in a professional way, in order not to tarnish their own reputation and principles. As the *Financial Times* (1995) observes, "it is part of a civilised society that people, inside and outside business, act morally. No more and no less." This must be the lesson for the next millennium ●

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# Article 7

## ETHICAL DIMENSIONS OF ENVIRONMENTAL MANAGEMENT

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# Ethical dimensions of environmental management

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**Abstract**

Argues that corporate responsibility must span over the legal, social, economic and technological domains. Places environmental system standards and auditing in their business strategic roles and gives a stakeholder approach to environmental management with its relationship to sustainability, economic growth and improved quality of life. Outlines the importance and relevance of "green" yardsticks in non-financial performance measurement terms. Analyses ethical dimensions, stressing that, by developing an ethical corporate culture, businesses can create both a competitive advantage and environmental excellence. Provides examples of contemporary environmental strategies in a European context.

## Introduction

Environmental issues are business issues and that is why they seem to be playing, increasingly, a more significant role within organizations. It is the global and national regulations that are enticing businesses to take into account the environmental impacts of all their processes, products and services. Hence, there has recently been much focus, at both the operational and strategic levels, on environmental auditing and environmental systems standards.

Ledgerwood *et al.* (1997) point out that environmental auditing requires a balancing of facts and values and, unlike the financial audits, it does not involve the application of hard and fast rules. Instead, it requires a creative case-by-case development of specific audit designs arising from discussions and agreements with the appropriate decision makers and stakeholders. It should be remembered, as Solomon (1994) claims, that it is the environment which is the silent stakeholder; it has neither a voice nor a vote in the running of business and society. Grave legal and financial consequences may result from corporate decisions which ignore the practice of environmental auditing. Gray (1993) suggests that such a discipline is a massive, complex, amorphous and rapidly developing area of green awareness and that organizations would be at peril if they ignore it. It also touches many aspects of current, proposed and possible future environmental regulation. However, it does serve as an initial meaningful step towards green sensitivity as well as a regular and essential part of environmental management systems.

According to Welford (1995), the use of environmental management systems and environmental auditing has become the traditional approach to corporate environmental management techniques. Management systems underline the need for discipline to establish structures and norms which will ensure that environmental performance is improved over time. For the organization, this approach should be twofold: first, to assess its own performance and, second, to facilitate benchmarking. Netherwood (1996) emphasizes that every business is unique when developing its own environmental management systems. This is due to differing management structures, products or services, processes, priorities as well as internal and external financial and political factors. The systems adopted should constantly measure, plan, improve and review in the pursuit of achieving both business and environmental excellence.

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European Business Review
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A number of forces, as far as James and Bennett (1994) are concerned, are now driving organizations to measure their environmental performance. These include demonstrating progress towards targets, ensuring better data for decision making as well as supplying information to regulators and all major stakeholders. Their detailed model is in the form of a continuous loop, consisting of eight sequential steps for effective environmental performance appraisal:

(1) define the environmental context and objectives;
(2) identify potential measures;
(3) select appropriate measures;
(4) set targets;
(5) implement measures;
(6) monitor and communicate results;
(7) act on results;
(8) review.

Similarly, Mosley (1996) suggests that the idea of such a performance cycle can be perceived as a dialogue and a focal point across the organizational divide, between the specialist measurers and the functional managers. It is the latter who would have the ultimate responsibility for formulation, implementation and improvement once the measures have been ascertained. Yet, above all, there must be a partnership of purpose whereby stakeholder interests are not put at risk while ensuring adherence to the requirements of environmental management standards.

The environment should be perceived as a stakeholder and its protection should be viewed as a core value for any business. This is because such a philosophy should improve corporate reputation and image by displaying a caring for the society in which it operates. Doyle (1992), for example, reports that Du Pont's environmental image is deliberately constructed to suggest that industry is capable of keeping its house in order without government interference. Moral obligations are imperative and, as the *Financial Times* (1995) quotes, "It is part of a civilised society that people, inside and outside business, act morally. No more and no less". However, unfortunately, one of the main motivations for organizations to undertake environmental initiatives is often more of a compliance with legislation than a voluntary sense of responsibility or wish to be sustainable. Thus corporate culture, the aggregation of expectations, beliefs and shared values, must perceive greening, in the long term, as a key business value which should become an inherent rather than a conscious issue.

## Environmental management in context

Any business decision is only as good as the quality of the information available. According to Beaumont *et al.* (1993), environmental information is increasingly becoming a strategic resource. Benefits and power will be derived from how it is used rather than just having access to it. More information, greater openness and democracy are vital for the greening of industry. There is a requirement to put into practice fundamental rights and freedoms, such as the European Commission's Directive on the Freedom of Access to Environmental Information.

Everything organizations do has some impact on the environment. This should be controlled by management systems with appropriate set standards.

From a US viewpoint, Rosen and Sloane (1995) show that recent developments in the European Union threaten to utilize environmental standards to control internal and external trade in consumer products. Marketers who do not conform may be restricted from participation while those meeting the requirements should enjoy the benefits of reduced competition and a growing market share. Such standards are intended to help organizations structure a uniform approach to meeting environmental obligations, with the ISO14000 presenting guidelines. McCafferty (1996) also implies that there is an underlying concern that ISO14000 will, in the future, become another prerequisite and, hence, an additional constraint for doing business with European enterprises. Moreover, Begley (1996) claims that Ireland, Spain and France have all come up with their own sets of environmental management standards and, yet, what is not clear is how these different standards will eventually mesh with one another.

When looking at new management systems standards for the environment, embracing ISO 14000, Zuckerman (1996) claims that European officials have voiced widespread concern over the commercialization and the growth of a global registration/certification industry, as witnessed by ISO 9000. Moreover, there is a worry at the proliferation of additional schemes. In fact, there is general talk of encouraging the International Standards Organization (ISO) to cease creation of additional management systems altogether. The consensus is that industry must become more discriminating about what standards it uses to impose internally, especially in the pursuit of quality.

Houldin (1994)believes that environmental management has more to do with

European Business Review
Volume 97 · Number 5 · 1997 · 224–230



integrating environmental considerations with normal management functions in all areas of business than merely with the development of separate management systems. Some specialized processes have become established as part of the emerging environmental profession. As such, the organization of today must have overarching enviro-societal goals as one of its targets for business excellence, as advocated by Schaltegger (1996). Thus, the following concepts can be distinguished :

- *Sustainability* – where society must use no more natural resources than the natural environment can re-generate.
- *Qualitative (sustainable) growth* – where there is a sustainable increase of welfare per capita, achieved with a decreasing or constant use of natural resources as well as with a decreasing or constant amount of pollution.
- *Sustainable development* – where development meets the needs of the present generation without compromising the ability of future generations to meet their own needs.
- *Sustainable society* – where society is well structured and behaves in such a way that it can exist for an indefinite number of generations.

The concepts and goals should formulate the umbrella that provides the overall environmental long-term picture. The processes of measurement, whether qualitative or quantitative, as well as those that control the progress of sustainable development, should be directed towards an enduring industrial society. As Epstein (1994) shows, there has been, in the last decade, a great increase by companies to apply available measurement techniques to environmental problems. In his view, green concerns have prompted a new focus to develop approaches for managing social and environmental impacts. This development is also witnessed by the fact that, in the European Foundation for Quality Management (EFQM) awards, 6 per cent of the total score relates to *impact on society* which, though small, is most significant as it acknowledges its importance. Comparatively, Thor (1994) proclaims an environmental index of 10 per cent weighting in his top level of the family of control measures at the macro level. His index covers such elements as key emission levels, amounts of hazardous waste generated and recycling rates, reflecting the organization's concern with various environmental issues and constraints.

As non-financial performance yardsticks have become a vital tool in management decision making and strategic planning, environmental dimensions should be incorporated into the measurement systems. Greenberg and Unger (1992) analyse the nature of environmental processes and identify eight measurable and key inputs: people, equipment, methods, materials, physical setting, internal support and administrative functions, external groups and, finally, feedback. Similarly, Wells *et al.*(1992) recognize three generic environmental success measures which are those related to environmental results, process improvement and customer satisfaction. They argue that the latter two can be as important as the first and the latter are especially relevant as they link the environment to issues of competitive advantage.

Taking a stakeholder approach, Stainer and Stainer (1996) have developed a values index for business excellence (VIBE). This index, with weighting appropriate to each organization, combines five elements: customer satisfaction, market effectiveness, resource effectiveness, workplace satisfaction and social effectiveness where the latter relates to the achievement of objectives on ethical and environmental dimensions. The reason for producing such a framework is that there is no single-answer model in relation to values and business success to suit all organizations or all industries. VIBE should only be developed after reflection on the organization's mission and objectives, embracing the fundamental expectations and values of the major stakeholders. Most importantly, it should also include enough measures to ensure completeness but not so many as to lose focus, with yardsticks being monitored as appropriate. It would contribute to putting environmental issues into a wider strategic context.

There is little doubt that European industry is placing the environment and its management centre-stage. Four examples illustrate this principle:

(1) British Telecom, in their publication *Putting the Environment on the Agenda* (1996), reveal that, in the pursuit of their mission to provide world class telecommunications and information products and services, they exploit technologies which are basically "friendly" to the environment. Moreover, they are committed to minimizing the impact of their operations by means of a programme of continuous environmental improvement.
(2) Specially after the Brent Spar disposal saga, Dr Chris Fay (1997), Chairman and Chief Executive of Shell UK, stresses corporate commitment to the improvement of environmental performance and

European Business Review
Volume 97 · Number 5 · 1997 · 224–230



its reporting. He also sets out the strategic approaches with the ultimate objective of regaining and retaining public trust.

(3) Torvild Aakvaag (1995), Chairman of Norsk Hydro, believes that the needs of society and the environment can and should be reconciled. He emphasizes that industry must see it in its interest to act as a partner with governments to promote sustainable development and should work, without respite, to improve the eco-efficiency both of its own production process and of its products and services.
(4) At AB Volvo, Axel Wenblad (1994), Corporate Manager, Environmental Auditing, shows that environmental responsibility is coincident with line responsibilities; that means that the president or plant manager is legally responsible for environmental matters.

An important question to ask is whether business has a moral obligation to protect the environment for future generations beyond what is legally required. The answer seems to be in the affirmative. For many organizations, the mission focus has certainly moved towards acknowledging a green agenda as well as improving its environmental management. As Stainer *et al.* (1996) affirm, business and industry are moving in the direction of sustainable operations as this approach is recognized as vital to the economy, environment and major stakeholders. They underline that any development will be sustainable only when it supports the communities and environments on which it strategically depends. Their view is that the movement is proving not only feasible but also increases productivity, contributes to profitability, employment, a cleaner environment and improvement of the quality of life. Such an approach has galvanized environmental long-term decision making to produce a new strategic business paradigm that is relevant to the next millennium.

Any debate about the care for the environment must fervently encompass, within its corporate responsibility remit, the related strategic ethical issues and core organizational values. In the words of John H. Stookey, President and Chairman of Quantum Chemical Corporation, "ethical issues come down to the fundamental question of how much of today's benefit you are willing to forgo for tomorrow's gain".

## The ethical dimension

Many organizations are experiencing problems in incorporating green principles, such as sustainable development and protection of the environment, into their accepted management practices. This is because of difficulties encountered in balancing economic and social factors. However, they intuitively know that such a pathway is cardinal for their long-run corporate performance. Winter (1995) focuses on three fundamental motives for introducing sound environmental management:

(1) acceptance of responsibilities to conserve natural resources;
(2) realizing the untapped opportunities for instituting measures that protect the environment and reduce costs, hence increasing income;
(3) avoiding or reducing risk, as ignoring environmental issues damages reputation and can incur an economic penalty.

The environment and its sustainability, concerned largely with the physical world, should also take into consideration the social, moral and ethical factors. A framework is developed for the analysis of environmental issues in relation to the business process, where the ultimate outputs highlight the salient quality of life outcomes (see Table I).

It can be seen that the decisions taken today by any organization will have a long-term societal consequences of customer satisfaction, quality of work life and environmental impact. As an example, British Telecom perceive such positive action as part and parcel of its public image, alongside honest marketing, community support and concern for Third World issues, all encompassing an ethical component. High levels of commitment to improving environmental performance should stand along other quality indicators. As Mizaur (1993) propounds, there is an affinity between quality and ethics in that they are similar concepts, both meaning "doing the right things right".

Business affects and is affected by its constantly changing and often unstable surroundings, fundamentally operating within four distinct domains: legal, social, economic and technological. Needless to say, corporate responsibility must span across them all. An organization should obey laws and regulations but, sometimes, though considered legal, many practices are ethically in a grey area. As Stainer and Stainer (1995) advocate, the real balancing act is between economics, ethics and law, where the latter is the lowest

European Business Review
Volume 97 · Number 5 · 1997 · 224–230



Table I The business process framework

| Inputs | Processes | Outputs | Quality of life outcomes |
|---|---|---|---|
| Resources | | Products/services | Customer satisfaction |
| | | Employee satisfaction | Quality of work life |
| | | Pollution | Environmental impact |

denominator of acceptable ethical behaviour. Therefore, businesses should review their operations and conduct themselves in an ethically and socially responsible manner. They should help to protect both the natural and built environments on which we, as a society, all depend. Organizations should be looking to achieve "better" standards than those legally laid down. Ethical leadership plays a meaningful role by inculcating an ethical corporate culture, frequently also creating a distinct competitive advantage. Two diverse and salient examples of such a philosophy are those of McDonald's and Monsanto. The former successfully coped, in league with the Environmental Defence Fund, with the growing protests about the environmental damage caused by its polystyrene plastic foam packaging. The latter made a pledge to reduce its worldwide air emissions of 307 chemicals by 90 per cent by the end of 1992 – achieving it earlier – and continues to work towards the ultimate goal of zero emissions. These corporations gained much in public relations and economic terms and have set elevated environmental standards as benchmarks.

It is those organizations acting within high standards of ethical conduct that prove that success can be achieved within the boundaries of responsible behaviour. According to Manley (1992), the majority of the British public considers a clean and safe environment to be a basic human right. This right does not translate into a discontinuation of economic growth. However, Sorell and Hendry (1994) stress that there is often tension between environmental ethics, in which any damage to the environment is morally questionable, and business ethics, in which environmental responsibilities have to be weighed against responsibilities to major stakeholders and the social benefits of business. But organizations have become especially sensitive to the environmentally-aware customer or consumer and one of the most important challenges facing them, in the next decade and beyond, is the equitable inter-linking of:

- economic growth;
- respect for the environment; and
- the quality of life.

However, too often in the past, despite economic benefits, innovators have failed to predict the unanticipated as well as the inescapable consequential disproportionate environmental damages. These have been witnessed by the industrial histories of the automobile, plastics and pesticides.

In business, the activities of environmental policy making, auditing and strategy must be carried out in an ethical climate in order to create a moral corporate culture. Yet, both management and employees need guidance on how to handle ethical problems. As such, several European industrial organizations have produced codes of ethics responding to environmental concerns. These range from a one-sentence statement by the Digital Equipment Corporation to fuller and more explicit declarations by Ciba-Geigy, RTZ and Royal Dutch Shell. However, it must be remembered that there is a considerable difference between compliance and genuine commitment to such codes.

Hoffman (1990) is convinced that a major reason why outbreaks of corporate wrongdoing are witnessed is not that managers are less ethical than others but rather that business gives so little thought to developing a moral corporate ethos. An apt example, in the USA, as reported in the *Environmental Manager* (1992), is that of Valcar Bowman, environmental manager at Mobil Chemical, who refused to take actions he thought were both unethical and potentially illegal. He was perceived as being negative and unco-operative and was eventually discharged. Mobil was sued for wrongful dismissal and, after three years of litigation, Bowman was vindicated and awarded $1.75 million in damages and interest. Needless to say, there has been many a time a moral divide between the employee and the employer causing conflicts and dilemmas.

It is in the interest of organizations to have values that are in harmony with society's expectations. However, society, as it becomes more knowledgeable and environmentally-aware, continues to make increasing demands on businesses and hence pressurizes them into tightening standards. Moreover, there is the nagging ethical concern that the current international standard system scenario, which

depends on the voluntary interlocking efforts of industry, governments, accreditation bodies and third party registrars, is both maladroit and contentious.

The environment raises many moral concerns which, ultimately, affect everyone. As Schokkaert and Eyckmans (1994) point out, environmental problems have, by nature, an international dimension and it is hoped that Europe will play a leading role in negotiations to solve the environmental problems at the world level. Corporate responsibility, via an enviro-ethical perspective, goes beyond what it is achieved in business terms; the repercussions can be global – a facet often disregarded, especially by multinationals. Measurement, and hence management, require standards both in technological and ethical terms, with the latter, though being of a qualitative nature, still measurable. In the words of Galileo Galilei: "Count what is countable, measure what is measurable, and what is not measurable, make measurable".

In decision making, morality and responsibility should be welded into the efficiency strategy. There are no defined recipes or simple rules for improving management judgement on challenging environmental questions. Measurement is only the starting point. As far as organizations are concerned, they cannot afford to, and indeed it is dangerous for them not to, take the risk of ignoring ethical issues – such an action is, itself, unethical.

## Conclusion

Industrial competitiveness and protection of the environment are inextricably linked. Business excellence and environmental excellence should go together. There must be a reconciliation of environmental and economic concerns as the former should be perceived as the "natural" economy. What is required is for organizations to thoroughly examine their business ethics and corporate cultures. They should proceed in a strategic direction that fully considers the green scenario, with the environment as the silent partner. In an ever-expanding global economy, they must build up trust with all their stakeholders as this trust is based on its moral behaviour and its reputation for integrity. The highest standards of societal and professional ethics should be demonstrated in order to become a world-class competitor.

The level of ethical behaviour should extend from beyond what is legally required to what is morally right. Enlightened organizations are beginning to realize that they must take charge of their own environmental concerns. Increasingly, as Ghobadian *et al.* (1995) show, many UK companies are seeking to become environmental leaders, having identified the existence of opportunities for achieving competitive advantage. As Elkington (1994) demonstrates, businesses can turn the environmental gain into one in which they, their customers and the environment, are all winners. The strategic challenge is to find ways of communicating and co-operating with all major stakeholders. Public opinion aside, there is no doubt that it is never too late to identify the environment as a core business value. In this way, it can become a significant measurement of the organization's wellbeing and carry as much weight as other closely-held business priorities including reputation.

Due regard should be given to the need for environmental standards to be applied effectively to all levels of activities as these should have a positive impact on the greening of industry. Part of such a commitment is to ensure that adequate resources are made available. Much of the business interest in ethical issues today is very much driven by the practical realization that an ethics programme is in a company's self-interest. The concept of sustainable development should be broad-based so as to incorporate considerations of equity, employment and energy, in addition to those of economics. The bottom line is that there must be a balance of the social and economic development which would require changes in people's attitudes, perspectives and lifestyles. Managerial competence should be cultivated to look further into the horizon. Actions rather than standards and codes are the ultimate societal judgement. As Hutchinson (1995) declares, "the transition to a sustainable society will give rise to much dispute and conflict – we need to learn better ways to achieve outcomes where all parties gain something".

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## Article 8

**THE UK FOOD SUPPLY CHAIN - AN ETHICAL PERSPECTIVE**

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# The UK Food Supply Chain – An Ethical Perspective

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**"The moral issues generated by the food supply chain demand attention and analysis. There must be an ethical approach balancing profitability with the welfare of life and the conservation of the environment." Lorice Stainer is a business ethics consultant and Visiting Fellow at Leicester University Management Centre; Alan Gully is Principal Lecturer in Business Studies, and Member for the Centre for Research in International Economics, at Middlesex University Business School; and Alan Stainer is Head of Engineering Management and Professor of Productivity and Performance Management at Middlesex University.**

## Introduction

Every member of society is a food consumer, and hence the keen interest generated in all aspects of this subject area. Indeed, human existence depends on the hygienic supply of nutritious foods. It is, therefore, understandable that food has become an ethical issue along each element of the food supply chain. Many controversies have arisen in relation to food from its production, such as animal welfare, safety of modern biotechnologies and labelling, to its retailing, such as the current growing domination of supermarket chains. As Mepham (1996A) points out, food is so basic a human need that it readily becomes the focus or means of expression of a whole range of other human concerns, both beneficent and maleficent. Although it is essential to the sustenance of life, it can also be a source of disease and death. This view consolidates what Rennie (1989) propounds, that food production is a powerful tool for encouraging prosperity as well as for inflicting human misery. The implication of ethics in the production of food, that is its quality, quantity and distribution, is a complex issue. This is because it involves a delicate balance among the farmers' livelihood, economic stability and environmental security.

A key problem in relation to food supply chain analysis lies in a confusion of politics, science and the practicality of generating food. It seems paradoxical that the consumer, in Europe and the United States, is in a prime position with the perceived quality and abundance of food which he or she has available and, yet, there is considerable dissatisfaction. This is probably due to a more discerning public which questions the authority of the market place. The contemporary consumer is not prepared to be a 'silent' stakeholder, and looks for high ethical standards. With increased consumer awareness, he or she has become much more vocal in expressing and debating ethical issues which arise within the food supply chain.

Public concern has led to proposals for changes in UK government regulatory policies. Governments ought to have an ethical obligation to ensure, firstly, that the food available to consumers is safe; and, secondly, that the government provides this reassurance through a system of product inspections and production standards. This is because the ordinary consumer, though deciding on the way he or she purchases, could hardly be expected to know the underlying effects or consequences of a particular food product, and is, hence, reliant on the expertise of the food suppliers. Jeff Rooker (1998), as the British Food Safety Minister launching the new Food Standards Agency, however, states that Government intervention is not the only answer to raising food safety and standards. He asserts that every person growing, manufacturing, preparing and selling food has a

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part to play in food safety, every day, every hour and every minute they are handling food, because they have a professional and personal responsibility to protect their customers. Yet, the role of the new Agency, according to Pring (1997), is seen as particularly crucial, as some food producers fear that their products may be subsequently branded as unhealthy. It should be stressed that many of the proposed policy changes may well be perceived as controversial, as increased regulation will inevitably raise costs without possibly generating additional benefits to consumers.

There is a definite growing unease amongst food consumers. The British Food Journal (1995) reports on a survey of 10,000 people which was carried out by CWS Retail, Britain's biggest Co-operative retailer. It revealed that:

(a) seven out of ten were concerned with animal welfare issues and believed that the food industry had a duty to the environment;
(b) two-thirds wanted clearer and more informative labelling;
(c) half of the respondents were more concerned about ethical issues now than they were five years ago
(d) three in five are willing to pay more for goods meeting ethical standards – up to almost 8% extra for goods costing £10

According to Pregmon (1997) ethical behaviour in the food and grocery supply chain has been on the decline for a long time. He believes that this should be addressed in two ways : firstly, by the moral leadership of top business management; and, secondly, by each participant in the food supply chain, in order to ensure that efficiency and good ethics go hand in hand. What is required is a stakeholder approach which encompasses social responsibility within each and every stage of the food supply chain. In both its economic and ethical sense the issue of value must be focused upon within all the constituents of the chain : the farmers and fishermen, the processors or manufacturers, the distributors, the retailers, the consumers and, not least, society as a whole.

## The Food Supply Chain

The supply chain, as defined by Christopher (1992), is the network of organisations that are involved through upstream and downstream linkages in the different processes and activities that produce utility in the form of products and services in the hands of the ultimate consumer. Organisations in the chain are dependent upon each other and yet, paradoxically, often do not fully co-operate and, sometimes, their relationships can actually be adversarial. This has been aggravated by the fact that each organisation, whether product or service oriented, sees itself as an entity and, hence, the consequence is often a lack of mutual understanding. As Scott (1996) points out, supply chains must become chains of trust so that all stakeholders can benefit. In other words, all those involved in the supply chain should unite to create a comprehensive framework to improve its performance, to remain competitive as well as to stimulate an ethical culture.

When one specifically looks at the food supply chain the associated ethical issues are complex in that they do not just relate to the food safety and hygiene facets. It seems that there are three main related areas of concern which need to be addressed by business:

(a) research and technology
(b) operations, and
(c) marketing and logistics,

each encountering its own moral challenges.

### *(a) Research and Technology*

Newby (1993) believes that agricultural science has transformed the practice of agriculture. Discoveries made by people in white coats have been transferred into farmers' fields in a bewilderingly short space of time, assisted by a wide network of institutions aimed at speeding up the process of technology transfer. As technology is so powerful in both its use and abuse, there is clear case for ethical evaluation. The 'spoilt' consumer who expects both variety and abundance every day is gradually awakening to the ethical underlying issues that arise in agriculture and research food policy. As Mepham (1996B) emphasises, research into food production and processing has proved to be the engine of change in the food industry, with profound effects on quantity and quality of food available, job opportunities, lives of animals reared for food, as well as the ecology and appearance of the rural environment. The ethical paradox is that many of the changes introduced, or to be introduced, might not have been chosen by society if awareness of the long-term implications was nurtured. In fact, there has been a distinct lack of both consultation and communication.

There are many examples in relation to research and technology for the supply of food with ethical connotations. These include



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environmental effects of the use of pesticides, hormone-treatment of animals, antibiotics practice, utilisation of substitute ingredients and the production of genetically-engineered foods. This last is a clear illustration of the ethical dilemmas that abound, because it can offer, as far as Ellahi (1994) is concerned, both new products and cheaper methods of producing existing ones. The debate can be highlighted by, on one hand, the statement made by HRH the Prince of Wales (1998) that genetically-engineered food is unethical as it deals with the realms that belong to God and God alone; and, on the other, Monsanto's advertising campaign stating that biotechnology stems from the real benefits which it provides for both consumers and the environment with the aim of encouraging a positive understanding of food biotechnology. In fact, Monsanto's stance is supported by *The Economist* (1998), which points out that genetically-modified plants are already commonplace in America, and that Europeans would be better off if they embraced them with equal enthusiasm.

How can the consuming public make a choice? It should be both entitled to more information and debate and provided with moral leadership from scientists, businesses and, above all, governments.

### (b) Operations

The operations function in all organisations embraces the production process, capacity utilisation, inventory control and workforce and quality management. Particularly in relation to food, this fundamental framework is more burdensome in that it needs to embody such criteria as hygiene and health which impact directly on both the human and animal kingdoms. Each constituent organisation in the food supply chain, within its own sphere, should identify the major responsibilities to ensure efficiency, and notably speed, in order to achieve the expected quality of food production. In operations strategy, Garvin (1992) suggests that organisations can compete on productivity, quality and innovation, but in the food operations arena in Europe over the last two decades

(i) there has been too much emphasis on productivity by reducing unit costs,
(ii) there has been less attention paid to total quality and ethical aspects, especially those which relate to the constituent organisation being answerable to the wider society, and
(iii) innovation has too often been dominated by the bottom line.

Pertaining to operations, there are various moral issues, such as health and safety procedures for the employee, hygiene standards and treatment of animals, including drift net fishing, feeding and slaughtering methods and factory farming and rearing. The latter controversy brings to roost the concern over a possible link between Bovine Spongioform Encephalopathy (BSE) and the human disease Creutzfeldt-Jakob Disease (CJD), an anxiety discussed by many, including Wunderlich (1991), Power (1996) and Knowles (1997). The first not only views the relationship between human and animals but also focuses on the treatment of animals on farms and laboratories. He underlines the ethical questions which surround all aspects of animal use in the food production system, including humane handling, sheltering, feeding, watering, castrating, dehorning, docking, breeding and slaughtering. Yet, ten years ago, Miller (1988) pointed out the dangers of factory farming by highlighting the disregard for traditional animal husbandry methods which result in countless infectious animal diseases despite the massive dosages of antibiotics. Today the operations strategy in the food industry ought to be aware of the ethical implications for the cultural factors affecting food consumption and integrate ethics into its objectives and policies so as to avoid a repeat of such disasters as the BSE saga.

### (c) Marketing and Logistics

Marketing and logistics are perceived as being at the sharp end of any supply chain, interfacing with the purchasing public. This is because a product or service should be available at the right time and in the right place when the consumer wants to purchase it; this is particularly salient as far as food is concerned.

The underlying ethical thinking in relation to marketing and consumerism in fact goes back to the 1960s when President Kennedy advocated four basic rights for the consumer: the right to safety, the right to be informed, the right to choose and the right to be heard. Mahoney (1996) believes that the satisfaction of consumer needs provides a positive ethical tone to marketing, but the consumer can still be vulnerable. Christopher (1992) argues that, although marketing management in practice is described as the 'four Ps' of product, price, promotion and place, emphasis has always been on the first three and 'place' was rarely considered part of mainstream marketing. This element, which relates to logistics management or distribution, has increasingly

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become a source of competitive strength and with longer opening hours of supermarkets and other outlets the food industry needs to meet the related economic and ethical challenges. A pertinent example is the giant burger group, McDonald's, who, according to Richie (1990), are rated as winners and world-class through their twin approach to logistics excellence and attention to customer satisfaction.

Ethical issues encountered within marketing and logistics include the upholding of advertising standards, environmental concerns on packaging, employee stress through time pressures, transportation conditions of live animals and perishable produce and equity of labelling. The last is highlighted, as it is felt that the consuming public has a right to appropriate and clear information. This is because communication can often be confusing, misleading and perhaps dishonest, such as in the withholding of details of full ingredients, nutrition and quantities. Cooper (1996) proclaims that consumers are 'ripped off' by food labels, such as cheese pizzas containing no cheese and swapping more expensive ingredients for cheaper ones. She believes also that food adulteration has now become more sophisticated than ever before and is becoming harder to detect and prove. Hall (1996) reports that the UK Food Advisory Committee is looking into the issue of control of 'functional foods', products that make specific health claims which should need licences. She observes that some consider that the new foods, which have an estimated European market of £20 billion, may be straying into the area of making medicinal claims.

As an overview, the food supply chain has become an inevitable ethical minefield. In order to resolve the associated challenges it requires involvement, dedication and perseverance from both the consumer and all the providers to ensure that there is a continuous dialogue. Its chief objective should be to create a socially acceptable culture of responsibility within the food industry.

## The Ethical Direction

Ethics is a strategic management issue according to Selly (1994) which should be considered in every facet of business decisions. An ethical business should communicate ethical behaviour and fair treatment to all its stakeholders. It should aim to satisfy societal expectations because, if it fails to do so, it would need to bear the associated responsibilities and deal with subsequent consequences. The strategic twin aims of high business responsibility and high societal expectations should be matched, or at least balanced, for mutual benefit, as illustrated in the strategic matrix (Figure 1) :

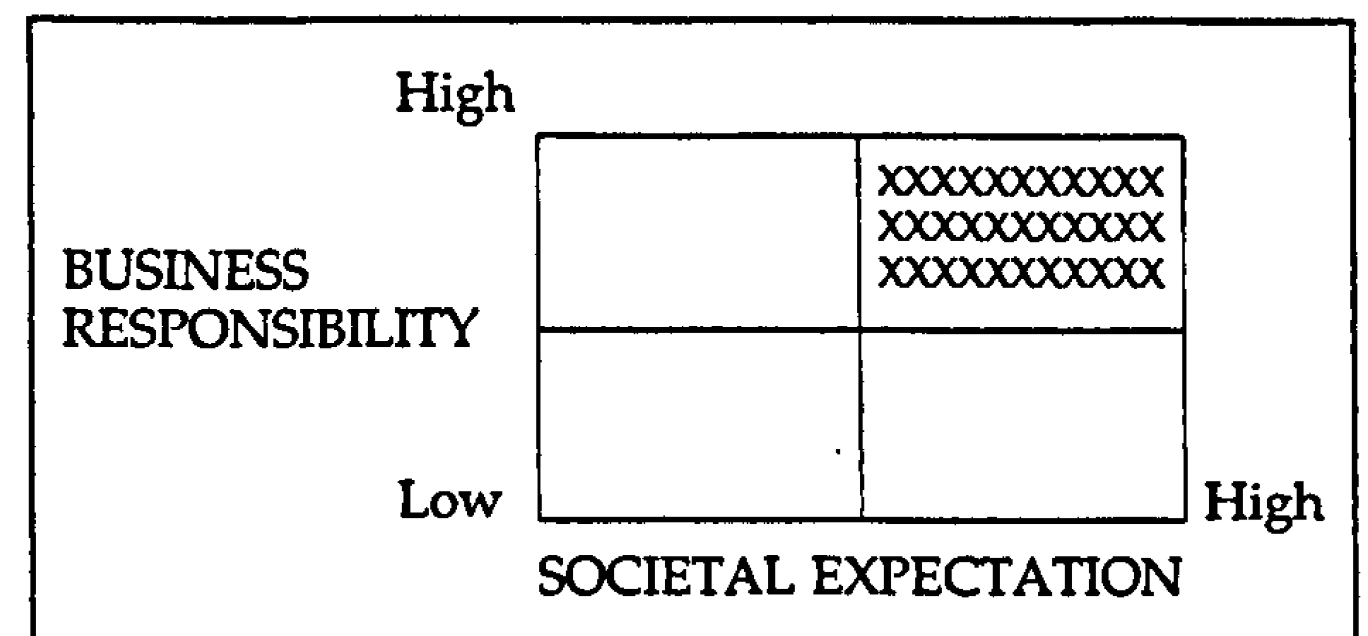


*Figure 1. Business Responsibility and Societal Expectation Strategic Matrix*

What are the societal expectations from the food industry? And what is the consequent impact on the various constituent organisations within the food supply chain in satisfying these? To answer these two questions, it would be constructive to perceive them as a continuous long-term cycle (Figure 2) whereby societal expectations and constituent organisational objectives impact on each other to create synergy.

*Figure 2. Impact on the Constituent Organisation and Society*

For the organisation to have a single strategic focus would be a distinct handicap. For instance, according to Checketts (1995), to be only customer driven, however simplistic, implies blind obedience to customers who may not always know exactly what they require. Therefore strategic analysis should



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not only just satisfy the consumer and society as a whole; it should also allow the constituent organisation in the food supply chain to be effective in its operations and remain competitive.

There is little doubt that, although consumers are perceived as 'kings' of the chain, they need to be protected by law, which must be the lowest denominator of acceptable ethical behaviour. Several companies have gone a few steps further through self-regulation. Lowe (1998) purports that they have responded to demands for new supply chain practices by working with pressure groups to develop products that meet codes of practice and carry a distinct label that communicates that fact. A recent example of such an approach in the United Kingdom is the supermarket group, Sainsbury's, who are collaborating with the Soil Association on organically grown vegetables and fruit with the subsequent outcome of the labels of these to bear the Association's logo.

Such self-regulation can also be demonstrated by Humphries (1998), who constructed a Code of Practice for Labelling Prepacked Foods for CWS which is designed to purge the food industry of misleading names, illustrations, descriptions and claims. Vaughn (1994) claims that GrandMet Foods – Europe recognized the benefits of evolving environmental programmes into their management systems, embracing audits, guidelines and procedures. Their policy is also to ensure that affiliations are in place with outside environmental interest groups to develop a kinship advancing the organisation's impact on society.

Needless to say, society depends on business and expects much from it. As such, in relation to the food supply chain, the two salient ethical rules must therefore be to exercise due care and to ensure respect for all forms of life. Yet there are many underlying ethical issues within the chain which continue to surface and need to be addressed by each constituent organisation through taking the wider and inclusive view. In this respect Byrd (1992) emphasises that business integrity is vital. Hence the guiding strategy for any constituent organisation, according to Frederick *et al* (1992), cannot possibly be formulated without considering the following three vital areas of action:

(1) to identify its stakeholders in order to safeguard their interest;
(2) to analyse the dominant values of the organisation and of its key stakeholders;
(3) to ascertain the major societal issues and their impact.

Along the food supply chain, from farmer or fisherman to the retailer and then the consumer, each player must take such a stakeholder approach. This is because it is actions rather than standards or codes that are ultimately judged by society. Battaglia (1994) points out that successful companies use supply chain partnerships not only to reduce costs and complement their products, but also to nurture long-term value-added relationships. As such, the effective and smooth running of the chain can be achieved only through an economic and moral kinship with a shared vision: according to *Proverbs 29:18*, "where there is no vision, the people perish".

## Conclusion

The ethics of food and its supply chain have been present and evolving for centuries. Media attention and a more educated and discerning consumer have certainly contributed to the current urgency of the debate. Indeed, morals and food have always been major pillars of both the Jewish and Islamic faiths, for which food supply and dietary rules are laid down in sacred texts which are considered to have divine authority. One of the valuable maxims in food ethics is to get the facts straight. But are they readily available?

Three general ethical principles provided by Craig Smith & Quelch (1993) define consumer sovereignty as the ultimate ideal, or 'Hippocratic oath', of the marketing and supply system:

(1) the capability to understand the product and related risks
(2) the choice of goods provided by the competition, and
(3) sufficient information to judge how expectations of the goods are satisfied.

They are, according to Hamilton (1996), deontological principles crafted to fit this scenario. What has been distinctly lacking in the food industry is the creation of an acceptable moral culture, based on a shared vision, values and a balance between the profitable, legal and ethical.

White (1994) proposes that to aim for a world-class supply chain should be high on the list of business priorities, and his view is particularly salient for the food industry. The objectives for excellence must be to combine standards of business performance with accountability. It is clearly obvious that economic measures alone are being increasingly perceived by business as inadequate to control the complex organisation of today;

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they must be underpinned by satisfying the expectations and values of all stakeholders. Burke & Logsdon (1996) believe that proponents of social responsibility are convinced that it 'pays off' and is only achieved by engendering the dimensions of centrality, specificity, pro-activity, voluntarism and visibility.

In Europe, food is relatively cheap and plentiful, but is it safe enough? This is where ethics surfaces even more clearly into play once the standards have been set. Any individual challenging public concern on food and its supply chain should be reminded that last year in the United Kingdom alone there were over 100,000 reported cases of food poisoning, which constitute possibly the tip of the unreported iceberg. The increased relationships with consumers have encouraged organisations to act in a manner of not just 'ought to do' but 'should do', because good enough is just not good enough. There must be commitment and trust between the constituents of the chain and the consumer so that actual and perceived risks are minimised. Surely, prevention is better than cure.

Food habits and food ethics are deeply embedded in behaviour and cultures. The food industry seems to pay lip-service to 'customer satisfaction' as food is perceived as a necessity. There is more to satisfying the consumer than purchasing products at "three for the price of two". Therefore the moral issues generated by the food supply chain demand attention and analysis. There must be an ethical approach balancing profitability with the welfare of life and the conservation of the environment.

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## Article 9

**BUSINESS PERFORMANCE -**
**A STAKEHOLDER APPROACH**

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# Business performance – a stakeholder approach


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**Abstract:** The integration of business and stakeholder values with performance measurement and management is explored. The state of the art of business performance is investigated and subsequently related to the stakeholder theory. Strengths and weaknesses of such a philosophy are analysed and discussed. The concept of Value to the Business is focused upon by formulating a related index that is based on the organization's major stakeholder satisfaction metrics. It is argued that the future sustainable organization would need to be inclusive in its approach and practice, galvanizing both the economic and moral aspects in its pursuit of business excellence.



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## 1 Introduction

The underlying theme of the stakeholder concept is corporate social responsibility which, in other words, relates to the obligations that a business has towards other parties. These should embrace all those who have a stake in the business's policies and decisions, with the major stakeholders to include shareholders, employees and customers as well as an assortment of other interest groups such as the government and society at large. As the

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millennium approaches, businesses will be increasingly judged by their actions and attitudes towards stakeholder demands and their response to these rather than by their words. For this reason, the business should expect and communicate ethical behaviour and fair treatment to all its stakeholders. It should also be aware that conflicting interests might arise but that these ought to be positively viewed as competing claims for resources that must hence be balanced.

The question to be addressed is what kind of responsibility do organizations have towards stakeholders? Five levels of managerial responsibilities are identified: operational, functional, technical, conceptual and ethical [1] where the latter should formulate the ultimate corporate aim. Every organization's dynamics create benefits and costs or harms which, if addressed well, will be distributed in a way which stakeholders will see as right, proper and just. This is particularly important in times of strategic and technological change. Therefore, it is imperative that a business should be propelled, firstly, by its own core values and, secondly, by its stakeholders' desires.

The basic premise that the customer is boss [2] should be perceived only as part of the stakeholder equation – but shouldn't every stakeholder be considered as a form of customer? Both in measurement and management, there must be a balance between the economic and societal expectations, which can be achieved through the four basic functions that drive the performance of every organization:

1. sensing and interpreting what's going on 'out there',
2. sourcing the skills, capabilities, materials, components, finance and customers that will keep the business alive,
3. serving stakeholders, and
4. synthesizing ideas and activities to exploit opportunities and leverage resources [3]. These shape the pillars of business competitiveness and sustainability.

The stakeholder analysis and its measurement have been given considerable reinforcement by the adoption of such a philosophy propounded by the 1995 RSA Inquiry into Tomorrow's Company. Within their model, they underline the multiplicity of relationships which companies will need to manage and measure their performance if they are to retain society's long-term licence to operate in a successful manner; this is heralded as the inclusive approach. In other words, if business value systems are misunderstood or mismanaged, the eventual repercussions can produce risks which themselves can lead to decline. In a similar vein, the European Foundation for Quality Management Model (EFQM) analyses outcomes of an organization's operational processes in terms of people satisfaction, customer satisfaction and impact on society, to be coupled with the generally accepted business results scorecard.

Whether they are from the public or private sectors, the forward-thinking business leaders are recognizing that the issues of ethics and business performance must be addressed together. This is because the presence of mutual trust and integrity in the inclusive partnerships are key to strategic business success [4]. No longer can profit be the sole bottom line and it is not good enough for organizations to be just well intentioned. Those that genuinely respect the stakeholder partnership would disregard the neo-trinitarian belief that money, knowledge/power and pleasure are the targeted business objectives [5]. The purely economic model of any organization may well be acceptable

today but is unlikely to be appropriate in the future; thus, it must be replaced with a framework to be constructed on a relevant stakeholder kinship. The challenge is how to achieve such a bold objective.

## 2 Business performance – the state of the art

Measurement in itself does not cause improvement – it is only the starting point. Hence, performance assessment needs a professional approach and must be perceived as a continuous process as the benefits derived can be considerable. For all organizations, there is a need for a performance management system because those who have never effectively measured their performance cannot seriously claim to know how their businesses might progress. However, a major criticism of any such systems in the past is that it was seen as a fragmented activity, lacking in focus and cohesiveness and driven by a set of inappropriate and probably incomplete objectives [6]. The main concerns are three-fold: there is no single set of performance yardsticks, no single basis for setting standards for those measures and no universal reward mechanism that constitute some performance measurement methodology that is applicable in all contexts.

The development of an effective *modus operandi* should incorporate five common characteristics that are essential prerequisites to attain best practice:

- know what you are trying to do, driven by corporate strategy
- adopt a range of financial and non-financial measures
- extract comparative measures through benchmarking
- report results regularly, promoting knowledge and action
- drive the system from senior management down

Performance should achieve organizational objectives and goals in a resourceful and consistent manner, though its underlying purpose is frequently overlooked. This is because the three important questions of when, where and how are not adequately addressed:

- When? If measurement is done too often it consumes more resources and thus becomes counterproductive; hence, timing should be a vital consideration
- Where? and How? These should be tailor-made for each organization, focusing on the critical and constraints areas of its processes

Performance measurement and management must be fully considered not only in relation to economic but also to ethical objectives. In this regard, two categories for analysis are identified [7]. First, there are the resultants of the effectiveness of a chosen strategy, such as market competitiveness, financial performance and real unit cost; and, second, the determinants of competitive success, which embrace quality, flexibility, resource utilization (or productivity), innovation and social effectiveness. But are the input resources economically utilized? Is the business process efficient? Are the outputs of products or services effective in meeting both organizational objectives and customer needs in terms of total quality? To answer these questions, the fundamental aspects of performance must encompass the three 'E's of Economy, Efficiency and Effectiveness [8], which can become the foundations of a successful operations strategy.

Pertinent performance indicators should furnish a comprehensive multi-dimensional view of organizational results as well as provide diagnostic assistance when change is required [9]. They should be examined as an integrated family of measures, which should form a balanced collection of four to six relevant yardsticks. They must also be well communicated and linked to the appropriate level of the organization's future plans, expressed in that level's language. In the wider context, the business system can be demonstrated as a continuous diamond-shaped cycle, emanating from business processes, to jobs and structures, to management and measurement systems and to values and beliefs [10]. This combined latter ingredient generates an approach to performance measurement and management that is geared towards the challenges posed by both contemporary businesses and society's expectations. It is imperative, therefore, that management should understand the effect and importance of measurement. This is because it produces a powerful key to unlocking the performance of socio-technical systems [11] and, hence, extends an open and transparent view of the businesses' environment.

The science of measurement should be considered as only the first stage of a continuous performance cycle, which should proceed to lead to evaluation, to planning and then to improvement. The overall effectiveness of this mode of operation depends very much on the combination of the individual effectiveness of each component. Furthermore, such a performance cycle can be conceived and developed as being a business dialogue, which not only evolves into the focal strategic point but also crosses the organizational divide [12]. On one hand, it embraces the specialists within the organization who are responsible for measurement and analysis and, on the other, it assesses the managers who are accountable for employee commitment and actions taken. As measurement is the foundation of good management practice [13], it should, however, be perceived only as a thermometer not a panacea. The businesses' underlying *raison d'être* of inclusiveness and competitiveness must be the generators of performance excellence.

## 3 The stakeholder approach

In recent years and increasingly, there have been pressures, often relentless, on managers to take into account the desires and values of the organization's stakeholders, without precluding the interests of the shareholders. What are these values? They are the desires, beliefs, moral principles and practices of an individual or group active within a corporate culture or community. For a potentially rewarding strategy, it is necessary to align a company's overall aspirations, analytical techniques and management processes with the key drivers of value [14]. By definition, all stakeholders have a vested interest in the fortunes of the business and what is important is to discover how human, organizational and customer intellectual assets can be balanced so that they can be combined to create value [15]. This is not an easy task. Indeed, measures that a business may be tempted to adopt to cut costs and maximize profits can sometimes violate obligations to other groups [16], thus causing imbalance and frustration.

The foundations of managing by values should evolve as: Be Ethical, Be Responsive and Be Profitable [17]. In a company that truly manages by its values, these three attitudes endorse the view that there is only one boss: the company's values which are both sensitive and responsive to the main constituents' demands. The broader and deeper the support from stakeholders, the greater is their capital and, consequently, the greater is

the underpinning of business excellence. As profitability, after all, is the result of their actions, it is imperative to develop and manage relationships by treating each stakeholder group as a target market with its own objectives and message strategy [18].

Whether in the micro or macro environment, organizational goals are derived from the underlying purposes of why a company exists and should reflect its core values. As organizations do not operate in isolation, they must link with both their internal and external environments, taking into account the various stakeholders differing demands from businesses on which they depend. These expectations can be expressed in both economic and moral terms (Table 1):

**Table 1** Stakeholders and their expectations from businesses

| *Stakeholder* | *Expectations* |
|---|---|
| Competitors | Fair competition |
| Creditors | Credit worthiness, security |
| Customers | Supply, quality, value for money |
| Employees | Fair pay, training, job satisfaction, health and safety at work, equal opportunity |
| Government | Legal compliance, social responsibility |
| Shareholders | Financial return, long-term share value, value-added |
| Society | Safety, environmental concern, social contribution |
| Suppliers | Prompt payment, long-term relationship |

Because of these demands, a business needs to address the three basic but vital areas of action [19]:

1. to identify stakeholders in order to safeguard their interests
2. to analyse the dominant values of the organization
3. to ascertain the major societal issues and how they might affect the organization and stakeholders

Over time and in different societies, stakeholders may vary [20] as well as, of course, in their relative power. In fact, they should not be set against one another in a sort of capitalist beauty contest [21]. The contemporary stakeholder theory ought to be compatible with the utilitarian and deontological philosophies, requiring that all those whose interests are involved get fair consideration [22]. The issue of fairness can arise because an organization sometimes regards itself playing a game that is managed by its own rules rather than by society's morals and principles.

Stakeholding is not a new idea; it is one of the oldest strategies for creating inclusive value. For two decades, the argument between the pillars of shareholder capitalism versus stakeholder capitalism has been on-going [23,24]. More recently, it has been stressed that the stakeholder approach means all things to all men and, although it is immensely seductive, it is flawed and, therefore, businesses should vigorously encourage wider and more responsible shareholding [25]. Similarly, it has been emphasized that businesses' very existence can only be expressed in financial and survival terms because financial performance is the ultimate yardstick of business strategy [26] and that the stakeholder objections to the primacy of financial performance affect the moral duties of managers, not those of the business. These opinions should be challenged because, by law,

directors' duties are owed not to their shareholders but to their company [27]; as fiduciaries, they must have regard to the interest of shareholders but that obligation is not related to the holders of shares at one particular time but is related to the general body of shareholders from time to time. There is nothing in English company law to prevent directors to have regard to other interests if they judge, reasonably and in good faith, that to do so is conducive to the health of the company. Indeed, for directors not to give appropriate weight to all the company's principal relationships may well be a breach of fiduciary duty. Instead of an organization's bull's eye being dividends and share price growth for shareholders, it should relate to the ultimate outcome of a better society for all [28]. For too long, 'short-termism' has prevailed.

The well-being of business and society requires the adoption of a stakeholder model as it leaves room for a 'progressive' stance [29], aiming to deliver optimal business performance. It is expected that, in the future, the development of loyal, inclusive stakeholder relationships will become one of the most important determinants of commercial viability and business success [30]. Thus, organizations should not be myopic in their strategic thinking and should respect the desires of their stakeholders, economically and morally. This approach should be addressed by developing a comprehensive framework to allow business performance to be monitored and judged in a socially acceptable manner – the foundation of maximizing stakeholder value.

## 4 The stakeholder and performance analysis

All performance calibrations must be integrated into the business strategic plan in order to provide the direction as well indicate how resources allocations are decided. Of course, it is natural for everyone to want profitability, market share, quality products and services now and in the future, timely customer service, happy employees, large dividends, a strong community image, earnings growth, and even a winning company football team. However, in theory, these can be obtained together but, in reality, the organization will tend to lead in some areas and lag behind in others and, therefore, priorities must be set and tradeoffs made, especially in relation to stakeholder interests [9]. Performance indicators, if relevantly harnessed, can drive behavioural change to embrace a stakeholder-sensitive philosophy.

In a productivity and performance context, value can be generated for both economic and societal gains [31]. An organization with vision should use its stated purposes and values to develop its own business success model from which it can generate a relevant framework for performance measurement [32] leading to business excellence. The business process can be analysed two-fold: first, through an output/input relationship or productivity and, second, through an output/outcome connection, where outcome is the ultimate result of the productive process and its effects on society, illustrated in the framework in Figure 1.

Whilst organizations tend to focus on the economic output of goods and services, they should not ignore the societal outputs, whether actual or potential, such as pollution, work-related stress and job satisfaction. Outcomes are increasingly becoming more meaningful, in strategic terms, than mere outputs in a value-based arena. As examples relating to education and health, the output of a university is high calibre graduates with

the ultimate outcome being a more educated society whilst the output of a hospital is the number of patients treated with the ultimate outcome being a healthier society.

**Figure 1** The Input/Output/Outcome Framework

| *Input* | *Output* | | *Outcome* | |
|---|---|---|---|---|
| | *Economic* | *Social* | *Intermediate* | *Ultimate* |
| Resources | Goods/Services | | Customer Satisfaction through Quality | Quality |
| | | Pollution | Environmental Impact | Of |
| | | Employee Satisfaction | Quality of Worklife | Life |

A pre-requisite for the success of a value-based approach is that each business is actually able to identify its own set of values which, concurrently, supports its operations and is shared by its stakeholders in a multicultural environment [33]. Consequently, an all-embracing index as **Value to the Business** can be developed to incorporate the perceived satisfaction by the organization's targeted major stakeholders. Illustratively, these can be: **Investors, Customers, Employees and Society** (ICES) (Figure 2):

**Figure 2** Value to the Business Index

$$\textit{Value to the Business} = I + C + E + S$$

where:

$I$ = *Investor Satisfaction*

$C$ = *Customer Satisfaction*

$E$ = *Employee Satisfaction*

$S$ = *Societal Satisfaction*

Each ought to be weighted according to business priorities, taking into consideration the organization's core values, culture, characteristics, size and structure and they should also be aggregated to formulate the Value to the Business Index. The metrics utilized should be tailor-made for each organization which needs to identify who its major stakeholders are, their nature and their degree of power; it should also be attuned as to if and when they vary. Analysing this Index, the satisfaction of each represented stakeholder is defined and can be assessed in various ways, or combinations thereof, illustrated as follows:

*Investor Satisfaction (I)* – achieving profitability and economic growth

- Return on Capital Employed (ROCE)
- Economic Value-Added (EVA) which relates to the difference between a company's post tax operating profit and the cost of capital invested
- Cash-flow Return on Investment (CFROI) which compares inflation-adjusted cash flows to inflation-adjusted gross investments
- Total Investor Return that relates to what the investor actually gets through changes in capital value, dividends or interest
- Real Unit Cost, the inverse of total productivity, which can be utilized for public investors or non-profit-making organizations

*Customer Satisfaction (C)* – consistently meeting customer requirements

- Expectations relating to quality, price, delivery and perceived value of products or services
- Actions as a consequence of customer feedback
- Customer retention
- Customer loyalty
- Reliability of products or services

*Employee Satisfaction (E)* – quality of work life for employees

- Motivation
- Training and development opportunities
- Involvement, empowerment and responsibility
- Health and safety
- Staff turnover and absenteeism

*Societal Satisfaction* (S) – achieving ethical and environmental objectives

- Waste and pollution levels
- Energy conservation
- Environmental impact
- Equal opportunities
- Effects on the community

Such a relevant stakeholder model provides a starting point for inclusive performance measurement and management. It can be used as a tool for dialogue and negotiation between the business and its constituents. But, transparency and integrity, welded with morality and responsibility, should be the vital factors to be inculcated into the decision making process for the preparation of the model. However, it should be recognized that whatever performance measurement procedure is in place, there may be limitations to that system. Of course, there is no substitute for sound judgement.

Without doubt, it is considerably simpler to meet shareholders' needs than to respond to the complex challenges desired by other stakeholders. The contemporary organization and its environment cannot run as smoothly as a football game. This is because the bottom line of profit is only a crude indicator of the multiple successes on which a thriving company depends [34]. Whilst profit or unit costs are undeniably important and form the bedrock of survival, stakeholder values, within the performance measurement scenario, should be perceived more as an essential management technique in the impetus towards sustainability. All groups within a company's ambit, that is its employees,

community, shareholders, suppliers and customers, can have measures linking success and objectives [35]. These should integrate innovation, total quality and flexibility as well as balance entrepreneurship with strategic thinking in the generation of both wealth and morality.

## 5 Conclusion

Business people often work within an economic environment, which increasingly focuses on short-termism. However, it can be argued that the role of business in society is changing and continues to change, demonstrating that organizations must embrace their wider long-term responsibilities beyond the strict economic scenario if they wish to sustain their competitive position. They must not lose sight of their purpose, mission and values which must be based on a kinship with their stakeholders and create an awareness throughout their processes. No more is it the financial bottom line that matters, even if it is the most uncomplicated target to understand and measure. Care should be incorporated in any decision making whether in large or small businesses, taking into account the consequential outcomes as these could either have positive or adverse effects on both the performance and image of the business. However, as large organizations are economically influential, they can use or abuse this power in the quality of life cause and ought to be encouraged to be stakeholder-aware.

The model presented provides a method of encompassing major stakeholders' expectations in evaluating the outcomes of an organization's very existence, and can become an effective diagnostic management instrument. It can also generate a powerful inclusive measure of value. Unfortunately, as money is easily counted, it can dominate every performance yardstick. The importance of using non-financial performance indicators is that they address the actionable steps that lead to a company's success [36] but genuine success does not come from just proclaiming values but from consistently putting them into daily action [17]. The real challenge ahead is the way in which these values are, firstly, utilized in the overall corporate strategy and, secondly, accepted by society.

Performance measurement, the foundation of good management practice, should monitor the fundamental elements of every organization's long-term aspirations, bearing in mind the interests of those who carry them out. This is because, in both operational and strategic scenarios, it ought to represent the business control dashboard and become the essential compass for management at all levels. As John Neill, Chief Executive of Unipart Group states, "stakeholding is about creating lifetime customer relationships, enduring returns for investors and genuine interdependence with employees, suppliers and the wider community. It is nothing less than good business sense." The inclusive business will increasingly be perceived as a world-class organization to be benchmarked against. Consequently, the message for the new millennium is that organizations need to be *au courant* because the stakeholding keys will be responsible for the harvesting of economic and societal rewards, long-term prosperity and an enhanced reputation.

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## Article 10

# ETHICS AND PERFORMANCE MANAGEMENT

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# Ethics and performance management

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**Abstract:** The relationship between values, ethics and stakeholders in a performance context is explored. Organizations must have a focused purpose of pursuing goals through the ethical concepts of value. The foundations and importance of core values to every business are discussed in relation to modes of behaviour and decision-making practices. They are demonstrated as underpinning the strategic direction, conveying what is expected by both the organization itself and the major stakeholders. A value-based framework is developed to highlight the ingredients of good business performance in the desire to combine excellence with morality.

**Keywords:** Performance: business ethics; values; measurement; stakeholder; management; productivity; morality.

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## 1 Introduction

A business has a licence to operate and, as such, must take into account its stakeholders. These are persons or groups, as members of the internal and external environment of an organization, who are involved or affected in some way by its operations and behaviour. Major stakeholders include employees, shareholders, customers and society with the latter depending on business and expecting much from it. Their influences on corporate values ought to be recognised and assessed. Therefore, the strategy of a business should serve them, analyse their demands as well as reflect these in both the mission and values statements. This approach can be achieved through a strategic constituencies analysis, itself perceived as a stakeholder test. In this way, corporate values would develop into an ethically acceptable business environment that would recognise that expectations and values may vary not only over time but also for differing cultures.

The pressures on modern managers are considerable. They not only emanate from the business operations but also from the immediate community, the wider society and the environment. As such, managers can experience 'ethics stress' whereby they are so involved in constructing a corporate moral image that they may neglect the economic and market demands to remain competitive. Whether from the public or private sectors, the forward-thinking business leaders are presently recognising that the issues of ethics and business must be addressed together. This is because one of the most important elements between the organization and its stakeholders is the presence of mutual trust, because integrity in the inclusive partnerships is the key to strategic business success [1].

Ethics has never been easy to define because it deals with intangibles like values and beliefs [2]. However, ethical standards do provide organizations and managers with an ability to resolve global dilemmas. Corporate ethics has become a strategic management issue which must be considered within every facet of the business [3]. Therefore, no longer can profit be the bottom line because it must be remembered that the purely economic model of any organization may be acceptable today but is unlikely to be appropriate for the next century. The costs to the organization of being unethical are potentially high with the consequences usually only felt in the longer-term. Therefore, business ethics should form part of the new bottom line as those organizations which are perceived as being unethical will lose customers, deter potential employees and encourage governments to make life difficult for them [4]. If value systems are misunderstood or mismanaged, the repercussions can produce risks which can lead to decline [5]. Hence, the business should expect and communicate ethical behaviour and fair treatment to all its stakeholders. It should be aware that conflicting stakeholder interests may arise but these ought to be positively viewed as competing claims for resources which must be balanced. Morality and responsibility should be integrated into the decision-making process; otherwise, tomorrow's problems may well emerge from today's solutions.

Often delegated with the discretion to make a business decision, it is the individual within an organization who produces the moral or social judgement. But it is the action and its consequences that are appraised by society. Therefore, the aim of a value-based strategy approach is to provide a common structure for the socially-responsible organization for whom the main benefits can include an improved corporate image and a better physical and moral environment both in and out of the workplace. Such a

philosophy can furnish a strong kinship amongst the stakeholders which should be integrated into a set of performance measures which are relevant, feasible and acceptable.

## 2 Performance in context

Performance can be simply viewed as the organizations' ability to achieve their objectives, not only in a resourceful manner, but also consistently. However, frequently, they lose sight of the purpose of analysing it. This is because the three major challenges of when, where and how are not competently addressed. In relation to when, if measurement is done too often, it consumes more resources and thus becomes counterproductive; hence, timing should be a vital consideration. As regards where and how, these factors should be tailor-made for each organization to focus on the critical areas of its processes. Therefore, performance measurement and management within any organization must be considered in relation to both its economic and ethical objectives. In this context, two categories for analysis are identified [6]:

a) the resultants of the effectiveness of a chosen strategy, such as market competitiveness, financial performance and real unit cost; and

b) the determinants of competitive success, which embrace quality, flexibility, resource utilisation (or productivity), innovation and social effectiveness.

Productivity can be basically defined as the relationship of the output of a process or entity with one or more of the inputs used to create that output. Total productivity, the inverse of unit cost, is when the relationship embraces all the inputs. In a simple output/input productivity model of organizations, the fundamental aspects of performance are the three 'Es: Economy, Efficiency and Effectiveness [7]. Are the input resources economically utilised? Is the business process efficient? Are the outputs of products/services effective in meeting both organizational objectives and customer needs in terms of total quality? It can be seen that, primarily, productivity can be enhanced in four direct ways through the improvement of:

1 efficiency, such as lowering operating costs;

2 effectiveness, such as better decision-making, communication, organizational design and human competencies;

3 attainment, such as increasing quality, reducing accidents and minimising time loss; and

4 quality of work life for employees, reflected in loyalty and high morale

Performance measurement can be featured as a pyramid illustrating where productivity and quality fit into the jigsaw of operations strategy [8]. At the apex, the corporate vision and objectives are supported by market and financial indicators, as essential resultants for success. This success is based on the operational determinants of customer satisfaction, flexibility and productivity which themselves are underpinned by ensuring high standards of quality and delivery, reduction of cycle time and minimisation of waste. In fact, performance indicators should provide a comprehensive multi-dimensional view of organizational results and also provide diagnostic assistance when change is required [9]. They should be examined as an integrated family of measures which should form a balanced collection of four to six yardsticks.

New strategies are being developed by leading-edge companies in the design of technologies that accelerate learning and enhance on-the-job performance [10]. They provide support tools, such as on-line help and simulation, as well as reference materials and electronic conferencing, which can be built to interact with the user to accommodate change and improvement. In a wider context, the business system can be demonstrated as a continuous diamond-shaped cycle, emanating from business processes, to jobs and structures, to management and measurement systems and to values and beliefs [11]. This combined latter ingredient generates an approach to performance measurement and management that is geared towards the challenges posed by both contemporary businesses and society's expectations.

## 3 Business ethics and values

What is business ethics? It is the study of how personal moral norms apply to the activities and goals of a commercial enterprise; it is not a separate moral standard, but the study of how the business context poses its own unique problems for the moral person who acts as an agent of this system [12]. What are values? They are not only the beliefs and moral principles of an individual or those embraced within a corporate culture but also the building blocks of ethical leadership. The new emphasis of a value-based strategy is, hence, to embrace the desires and galvanise the moral principles and practices of all major stakeholders. Such an approach aligns a company's overall aspirations, analytical techniques and management processes with the key drivers of value [13]. The foundations of managing by values should evolve as: Be Ethical, Be Responsive and Be Profitable [14]. In a company that truly manages by its values, these three attitudes endorse the view that there is only one boss: the company's values that are sensitive and responsive to the major stakeholders.

The debate between the pillars of shareholder capitalism versus stakeholder capitalism has developed over two decades [15,16] and is still continuing. It is interesting to note that, in the USA and the UK in recent years where most companies have adopted the bottom line approach, greater financial success has been achieved than in Germany or Japan where an apparently more pronounced stakeholder-responsive attitude reigns. Does this imply that caring more about employees by signing up to the Social Charter, or involving shareholders more in decision-making, is worse for the company's financial health? Despite simplistic appearances, it can be argued that this is not so because it is the German and Japanese national economies that would appear to be mainly responsible for the lesser business success rather than the individual corporate mission and objectives.

It is important to distinguish clearly between the purposes and goals of business [17] where a goal is the target towards which the company strives. Once met, the pursuit of further goals continues enabling the company to plan for the future. But where do goals come from? They are derived from the underlying purposes of why a company exists. The purpose provides essential continuity especially when changes in the business micro or macro environment occur. The company's values should be reflected in its purpose and, conversely, its purpose will be driven by its core values. How are the valued elements evaluated? As value systems can create both opportunities and threats, it is important to analyse what is perceived as valuable to an organization. This thinking undoubtedly requires the following three questions to be addressed [18]:

- Who counts?
- When does it count?
- How is it counted?

The responses should assist managers as to the manner by which to integrate values in the company's decision-making process. As organizations do not operate in isolation, they must link with both their internal and external environments. This is because different stakeholders place differing demands on the business (Table 1):

**Table 1** Stakeholder demands on businesses

| *Stakeholder* | *Demands* |
|---|---|
| Society | Safety, environmental concern, social contribution |
| Competitors | Fair competition |
| Creditors | Credit worthiness, security |
| Customers | Supply, quality, value for money |
| Employees | Fair paying, training, job satisfaction, health and safety at work, equal opportunity |
| Government | Legal compliance, social responsibility |
| Shareholders | Financial return, long-term share value, value-added |
| Suppliers | Prompt payment, long-term relationship |

Mutual trust and effective communication, in tandem, are essential ingredients of the stakeholder corporation. There has been a broadening of corporate values in top British companies in recent years [19] but the inclusive stakeholder approach [5] appears gradual. The step-by-step climbing of the hierarchical pyramid of managerial responsibilities, from operational to functional, to technical, to conceptual, and ultimately to ethical [20] is similar to the suggested strategy formulation which takes into account three basic but vital areas of action [21]:

1. to identify stakeholders in order to safeguard their interests
2. to analyse the dominant values of the organization
3. to ascertain the major societal issues and how these might affect the organization and stakeholders

Measurement, therefore, should be an integral element within a value-based framework [18]. The ethical concepts of value should be rooted into managerial decision-making but they will remain obscure unless they are planted in every business function. They will be considered as relatively meaningless unless they form part of the performance scenario and are supported by a relevant measurement framework.

## 4 Developing a Performance Framework

What does not get counted, does not count. Therefore, as money is easily counted, it can dominate every performance yardstick. Changing the organization's performance

measurement culture can be assisted through empowerment, giving employees more freedom in how they carry out their work [22]. Performance indicators, if relevantly harnessed, can drive behavioural change to embrace a stakeholder approach. In a productivity and performance context, value can be generated for both economic and societal gains [18]. In order to achieve these, the business process can be analysed two-fold: firstly, through an output/input relationship or productivity and, secondly, through an output/outcome connection, where outcome is the ultimate result of the productive process and its effects on society (Figure 1):

**Figure 1** The input/output/outcome framework

| INPUT | OUTPUT | | OUTCOME | |
|---|---|---|---|---|
| | ECONOMIC | SOCIAL | INTERMEDIATE | ULTIMATE |
| Resources | Goods/Services | | Customer satisfaction through quality | Quality |
| | | Pollution | Environmental impact | of |
| | | Employee satisfaction | Quality of work life | life |

Whilst organizations tend to focus on the economic output of goods and services, they should not ignore the societal outputs, whether actual or potential, such as pollution, work stress and job satisfaction. Outcomes are increasingly becoming more meaningful, in strategic terms, than mere output in a value-based arena. As examples relating to education and health, the output of a university is high calibre graduates with the ultimate outcome being a more educated society whilst the output of a hospital is the number of patients treated with the ultimate outcome being a healthier society.

Human endeavour should not be under-rated. In this context, stress is a major ethical issue. In Japan, *karoshi*, or death from overwork, is estimated at 10,000 cases annually. In fact, two-thirds of on-the-job stress involves non-productive behaviour associated with time wasting through such factors as waiting for resources, unnecessary meetings or inadequate information. Ultimately, this can lead to lack of self-development, limited creativity, low motivation as well as diminished loyalty which, if all considered together, are the essence of stimulation of individual performance [23]. Hence, to capture the potential of the workforce, core values need to be enshrined in the organization's culture. Individuals should be inspired rather than simply respond to new initiatives. Such an attitude provides a seed of encouraging continuous improvement in productivity.

An organization with vision should use its stated purposes and values to develop its own business success model from which it can generate a relevant framework for performance measurement [5] leading to business excellence. Business excellence in world class manufacturing plants can be measured in terms of productivity and quality [24]. In a similar vein, there is a definite affinity between quality and ethics in that they both should mean doing the right things right [25]. Therefore, pursuing business excellence and business ethics can be simultaneously targeted as the twin peaks of eminence.

A prerequisite for the success of a value-based approach is that each business is actually able to identify its own set of values which, concurrently, is supporting its

operations and is shared by its stakeholders in a multicultural environment [26]. In generating a value-based approach to performance measurement, an all-embracing index has been developed to incorporate targeted outcomes for the organization's major stakeholders. Each ingredient is weighted according to management priorities and is dependent on the organization's culture, characteristics, size and structure - an example is shown in Table 2. The elements are then aggregated to form the Value to Stakeholders Index [27]. Such an index provides a way of modelling values for business excellence, bringing together the many dimensions involved in satisfying all major stakeholders of a business.

**Table 2** Values to stakeholders index

| $V = C + R + E + M + S$ | |
|---|---|
| where: | |
| $V =$ | Values to stakeholders index |
| $C =$ | Customer satisfaction<br>consistently meeting customer requirements |
| $R =$ | Resource effectiveness<br>achieving profitability and total productivity objectives |
| $E =$ | Employee satisfaction<br>quality of work life for employees |
| $M =$ | Market effectiveness<br>achieving objectives with respect to market share and position |
| $S =$ | Social effectiveness<br>achieving objectives on ethical and environmental dimensions |

The stakeholder approach presents managers with significant challenges [28]. This is because it is much easier to meet the responsibility towards the shareholders alone rather than juggle the complex claims by other stakeholders. To help build the common language of quality and ethics into an organization's values, four substantive areas need to be addressed, characterised as the four 'S's of green success [29]

- *Satisfaction* of stakeholders
- *Safety* of products/services and processes
- *Sustainability* of the company's activities
- *Social Acceptability* of the company

These factors can be achieved through ensuring compliance with the law, establishing codes of practice and sound corporate governance as well as creating ethical awareness within and outside the organization because a value-based approach ought to come from the grassroots. But, the contemporary organization and its environment is not as simple as a football game; the bottom line of profit is only a crude indicator of the multiple successes on which a thriving company depends [30]. Whilst profit is undeniably important, stakeholder values within the performance measurement scenario should be perceived more as a vital management tool in strategic thinking.

## 5 Conclusion

An argument made by some businesspeople is that rational individuals ought to do whatever is profitable for business and it is profitable to conduct business in accordance with principles of morality - hence, rational managers ought to conduct business in accordance with principles of morality [31]. That means that there is a potential economic gain in moral goodness. However, this is a dangerous stance because of the fact that this argument clearly makes the pursuit of increased profits the sole reason for doing what is ethical. Clearly, organizations must not lose sight of their mission and values that must be based on a kinship with major stakeholders. It is not just the financial bottom line that matters even if it is the easiest target to understand and measure.

Morality, like beauty and quality, is in the eyes of the beholder and, hence, more difficult, to assess. The framework presented provides a method of encompassing major stakeholders' expectations in evaluating the outcomes of an organization's very existence. It can also provide a powerful inclusive measure of value. The importance of using non-financial performance indicators is that they address the actionable steps that lead to a company's success [32]. However, genuine success does not come from just proclaiming values but from consistently putting them into daily action [14]. The real challenge is the way in which these values are utilised and accepted.

No matter what business they are in, organizations are vitally interested in determining how they are performing. Performance measurement, the foundation of good management practice, should monitor the fundamental elements of the organization's long-term mission and vision. This is because, in both operational and strategic scenarios, it ought to represent the business control instruments and become the compass for management at all levels. In the new millennium, which will be knowledge-led and propelled further by technology, business excellence and business ethics will be the key to organizational sustainability. The philosophies of efficiency and effectiveness must be tempered with integrity and social responsibility. Ethical dimensions must be in-built in management thinking, management strategy and performance analysis. In the words of John J. Mackowski, Chairman and CEO of Atlantic Mutual Companies,

> "one thing that concerns me about the future of our country is the preoccupation with profits we see in the financial area, as opposed to concern for people and values. One of the reasons for our competitive malaise may be that we have lost sight of what organisations are supposed to do".

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## Article 11

# EMPOWERMENT AND STRATEGIC CHANGE
# AN ETHICAL PERSPECTIVE

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Strategic Change

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# Empowerment and strategic change—an ethical perspective


- *Empowerment is discussed and examined in its operations strategy context.*
- *The relationship between empowerment, productivity and total quality management is analysed.*
- *The ethical and value-based dimensions of empowerment are examined.*
- *Effectiveness in leadership, communication and a commitment to successful strategic change are seen as fundamental for the successful implementation of empowerment.*
- *Improvements in business performance should be allied to a stakeholder management approach.*

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## *Introduction*

Empowerment has been defined by the Oxford English Dictionary as 'to authorise, to enable'. The underlying message is that position in the hierarchy, status and expected corporate and individual behaviour comes second to the dynamics of operational performance and achievement. As Champy (1995) states, empowerment may be the more fashionable term for enabling but, unfortunately, it has been repeated so often and so indiscriminately that it has lost much of its potency. How can power be positioned for strategic change by managers in a constructive fashion? Drucker (1995) believes that what is intended with

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empowerment is not a shift in power but a shift in authority and accountability. Furthermore, it can be argued that it is not a great step forward to devolve power out from the top and place it at the bottom. It is still power. To build competitive and achieving organizations, power must be replaced and legitimized by the practice of shared responsibility. Increasingly, organizations are positively stressing to their employees the importance of being answerable for the planning of their own personal development as a principal ingredient for enhanced human resource effectiveness.

*Empowerment has been repeated so often and so indiscriminately that it has lost much of its potency*

In the last decade, there has been a significant move from the command and control culture towards both the empowerment philosophy and the more formal shaping of ethical values within the business. Empowerment can form a sound basis for improved employee satisfaction, total quality management and increased personal and organizational productivity. Yet, **it must be genuine, planned and, above all, managed in an ethical climate.**

According to Randolph (1995), in order to empower the workforce, a dramatic organizational strategic change is required. The key steps, such as the evolution of an information-sharing culture and the creation of autonomy through structural change, seem deceptively straightforward but are frequently very difficult to implement. Therefore, top management should perceive empowerment more as a gradual planned process rather than as an automatic magic formula. It should endeavour to utilize human capacity to its full, providing people with the necessary skills, competencies and resources for the jobs ahead.

## Empowerment in operations strategy

As discussed by Kizilos (1990), 'powerlessness' is one of the root causes of many of the problems attributed to managerial frustration. There are both economic and psychological reasons to champion the empowerment ideals. Essentially, empowerment means that employees, when delegated responsibility, should act as if they are the organization itself. This requires a process of change or re-engineering which would lead to a more responsive corporate culture, facilitating advances in intrapreneurship. In this way, employees would act as part of independent self-directed teams. Effective leaders empower others to perform, develop and advance with the consequence that there are considerable benefits for all concerned. In consequence, there should be a greater sense of purpose which can translate into continuous productivity and performance improvement. If this philosophy fails, it is often the lack of training and management support for the new approach which is likely to be blamed.

As Ridgeway and Wallace (1994) have stated, effective corporate change is frequently valueless and transient unless it seeks to empower. In relation to the human resource role in change management, their analysis compares the traditional with the empowering scenario, bringing to the fore the changing role from 'personnel management' to autonomous 'internal HR consultancy'. This implies the ability to demonstrate added-value advice and service. Thus, the concept of the development of strategic partnership within the organization and the nurturing of the individual values of creativity, innovation and self-deter-

*Effective corporate change is frequently valueless and transient unless it seeks to empower*

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mination, must surface. The use of unfettered empowerment, whatever over- or under-exercised, may lead to high risks. Ballé (1995) purports that the challenge for organizations is to provide an environment, in an ethical setting, which will motivate the natural latent spirit of employees, valorizing their competence, expertise and intuitions rather than confining them to narrow hierarchical roles. Empowerment seeks to by-pass the traditional process of obtaining approval from the organizational hierarchy for change in the re-organization of tasks. Moreover, it provides the facilitation of effective performance management.

Empowerment, according to Peppard and Rowland (1995), can only be effectively realized by recruiting suitable individuals, training them as well as entrusting them with the appropriate levels of accountability and authority, thus creating the sense of employee involvement. Hussey (1994) shows that employees should be able to see the results of their efforts and accept answerability for their own accomplishment. This should give them a positive commitment to continuous step-by-step improvement, similar to the *kaizen* approach in Japan. Hellriegel *et al.* (1995) stress that reliable and trustworthy employees rarely make decisions that are inconsistent with their own goals, especially if they have helped to shape them. The Price Waterhouse Change Integration Team (1995) advocate that an organizational atmosphere should be created in which all employees feel that they have real influence over standards of quality, service and business effectiveness within their area of responsibility. Armistead and Rowland (1996) have developed a framework through which to examine empowerment within an organization (Figure 1).

The matrix is based on both the organizational focus, as viewed by senior management, and the preceptions of individuals' discretion within the organization. The principal challenge is where both the organization as a whole and the individual groups of staff should be positioned. Much of the problem would result from movement into the anxiety or frustration domains. Therefore, it is a constant balancing act between effective leadership and empowered involvement.

In the field of operations, Smith (1995) underlines that creating productive organizations and developing the workforce is greatly aided by the empowerment philosophy, where the gradual shift to participation has refocused the attention of management on an array of team efforts. The growing use of such work teams has meant that managers must learn to weigh the often conflicting demands of both individuals and workplace, as well as appreciating that the organization has still to satisfy its external customers and the wider stakeholder community. In order to successfully empower, managers must have the confidence in their subordinates to possess adequate knowledge and to ensure that improvements are consistent with the generic business strategy.

In the United Kingdom, two relevant exam-

| Organizational Focus | Low — **Individual's Perception of Discretion** | High |
|---|---|---|
| Empowered | **ANXIETY**<br>Low Control<br>Unwelcome Autonomy<br>No Support | **ADAPTIVE**<br>Low Control<br>Autonomy<br>Support |
| Imposed Control | **COMPLIANT**<br>High Control<br>No Autonomy<br>Support | **FRUSTRATION**<br>High Control<br>False Autonomy<br>No Support |

Figure 1. The positioning of empowerment.

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ples illustrate empowerment success. The first is reported by Lewis and Lytton (1995). They highlight that the key to successful organizational change and profitability within a small British engineering company is empowerment. In getting employees to fully appreciate that they are recognized, respected and valued, they evolve as the most prized asset, even though not appearing on the balance sheet. The second is recounted by Bennett (1999). He purports that a specialist bicycle manufacturer, facing ferocious European competition, introduced a radical productivity and quality improvement programme based on empowerment. An agreement was made whereby 20% of all financial savings achieved through workers' high productivity would be paid to them. As a consequence, productivity rose sharply as the workers responded to their new organizational responsibilities and decision-making powers by implementing many labour-saving innovations. As a result, the firm quickly became one of the most efficient bicycle manufacturers in the world.

Hogg (1993) claims that the movement towards empowerment stems from the continuing technological advances of recent years. The information technology revolution helps to break the hierarchical mould and allows an increasing emphasis on encouraging individual employees to think and act for themselves. This phenomenon has lead to changes in behaviour towards employee goals and core values, especially significant in terms of motivation and achievement. However, it is just as important to note that an even greater change of behaviour is required from the managers who carry out the empowering. In this respect, the middle managers are in the pivotal position to ensure that integration takes place. This is because they are in a position to translate strategic goals into day-to-day operations. Empowerment should be a vital element in implementing long-term change because both the external environment and the individuals affected, whether employees or customers, are continually in a state of dynamic change. The potential impact of empowerment respectively on the organization and the employee are schematically presented (Figure 2).

*The information technology revolution helps to break the hierarchical mould and allows individual employees to think and act for themselves*

Enlightened top management may attempt to 'get close' to the employees. Without a balanced and professional approach, empowerment 'stress' could well result. This is the phenomenon by which organizations are sometimes too busy constructing a new empowerment regime that they subordinate their drive for improved performance. Therefore, to attain empowerment objective would require the three elements of managerial effectiveness: leadership, communication and the commitment to strategic change. The challenge lies in the improvement of operations performance through a sustainable empowerment approach.

Productivity and quality improvements can only be gained through the people that constitute the organization—a simple rule not to be disregarded by management. Andersen Consulting (1994) reveal that excellence relating to world-class manufacturing operations can be measured in terms of productivity and quality. In the same vein, Oram and Wellins (1995) show that world-class productivity, in growth and output, depends on process improvement, people and empowerment, all to be linked through an efficacious information flow. In this context, productivity focuses particularly on labour productivity, defined as the relationship between the output of a process and the labour inputs used in the creation or modification of that output. Quality, on the other hand, can be defined from many viewpoints, such as fitness for use, conforming to expected specifications, perception of value or as satisfying customer wants and meeting or exceeding expectations. As far as Kondo (1997) is concerned, quality is itself a source of empowerment. Thor (1994)

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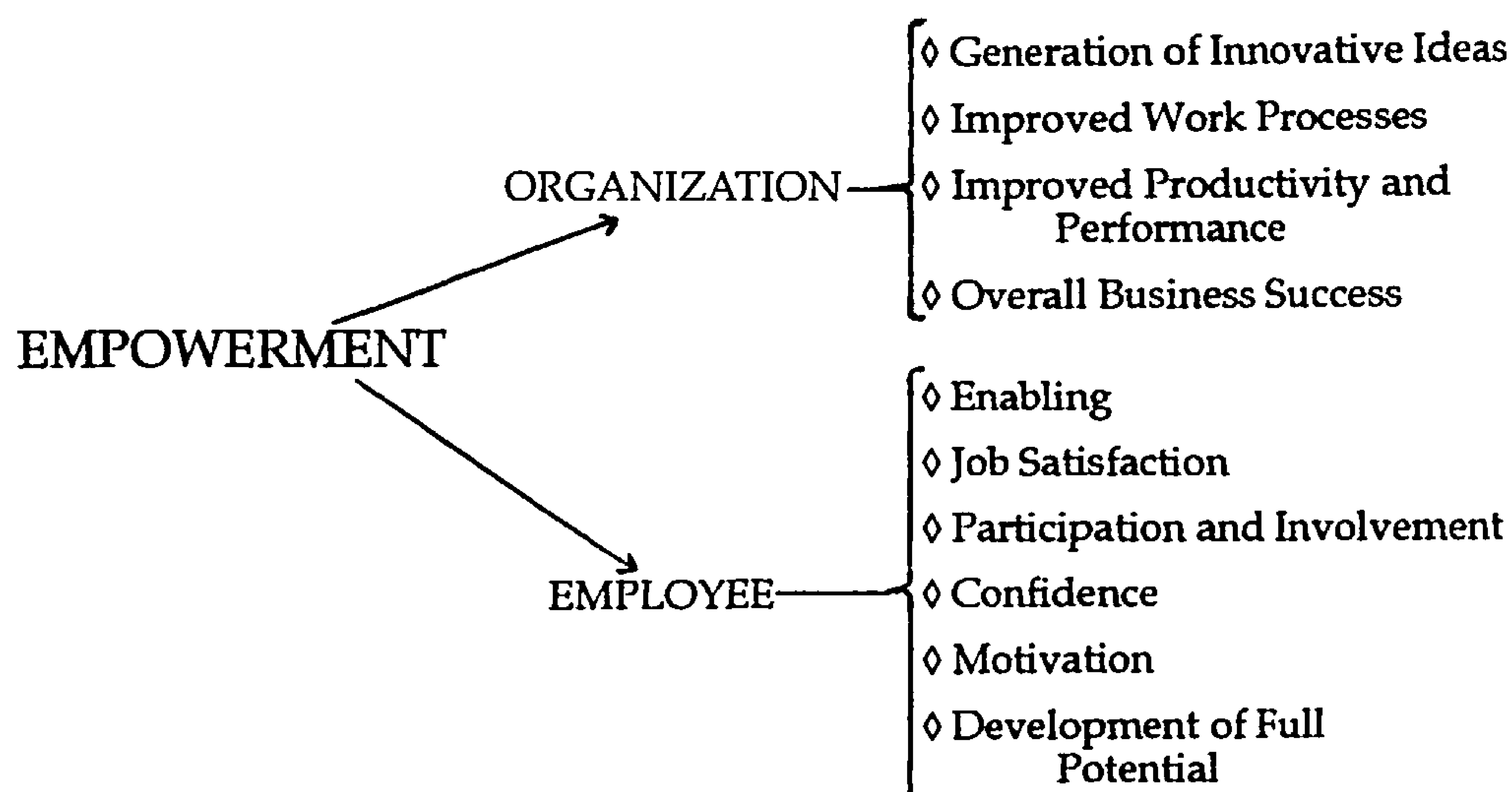


Figure 2. Impact of empowerment on the organization and the employee.

advocates that productivity is what ultimately makes organizations competitive and successful, whilst attention to quality is the best way to achieve that productivity. These two elements can be galvanized into developing the total quality management syndrome which relates to managing, with an organization-wide commitment, to continuous improvement.

Empowerment should be intrinsically linked to quality management thinking. Indeed, Juran (1989) states that, ideally, quality management should be delegated to the workforce to the maximum extent possible. According to Smith *et al.* (1993), five of Deming's 14 points of quality and productivity success relate directly to the notion of empowerment:

*Empowerment should be intrinsically linked to quality management thinking*

- Institute training
- Teach and institute leadership
- Drive out fear, create trust and create a climate for innovation
- Eliminate exhortations for the workforce
- Encourage education and self-improvement for everyone

Disempowerment, as far as Osbry (1991) is concerned, could transform reasonably healthy, confident and competent people into anxious, tense, ineffectual and self-doubting wrecks. Seaker and Waller (1996) feel that this perspective underlines the fact that employees must be encouraged to voice their ideas and queries if performance improvement methods are to excel. This is because it would stimulate employees to communicate without fear of reprisals and to be tolerated by management if mistakes occur. In the results of a survey by the Wyatt Company in the United States, Laabs (1993) reports that employee empowerment contributed to significant differences in the effectiveness of total quality management programmes. In fact, Bernstein (1992) claims that companies which actually implement employee empowerment frequently find that such an approach pays off in such key aspects as morale, productivity and quality. Furthermore, Nelson (1994) stresses that, through empowerment, efficiency and productivity can increase, allowing the organization to respond to strategic changes in the marketplace more rapidly.

Such a *modus operandi* will only be successful if the philosophy and accompanying management actions are **perceived as being fair and carried out in an ethical manner.** The management of total quality brings together not only the concepts of productivity and

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quality but also ethics. Mizaur (1993) maintains that ethics and quality are similar concepts in that they both mean doing the right things right. According to Peterson (1995), ethics can help nurture a quality culture where employees are encouraged to think, speak up and improve key business processes.

## *Is empowerment ethical?*

In examining the ethical perspective of the empowerment philosophy, Bowie (1990) contends that the central function of business is to provide not only meaningful work but that it should be consistent with the demands of morality, leading to enhanced business performance. As industry and commerce enter the twenty-first century, a more enlightened approach in relation to ethics is developing in management thinking. *The Financial Times* editorial, dated 6 May 1995 proclaims that '*It is part of a civilised society that people, inside and outside business, act morally. No more and no less*'. Consequently, it seems pertinent that there should be a balance between organizational values, such as product/service quality and profit, and employee values, such as job satisfaction and quality of work life. Alpander (1991) and Stanton (1993) declare that managers have a moral duty to help employees attain a true sense of self-fulfilment, self-esteem and control over their collective lives and destinies. This philosophy is taken further by Du Gay and Salaman (1992) who claim that an individual becoming a better performer in the workplace is synonymous with becoming a more enterprising and fulfilled person. Mathis and Jackson (1991) propose three kinds of individual performance criteria that organizations need to nurture in order to prosper: productivity, innovation and loyalty. All three can be achieved through effective implementation of the empowerment principles, because responsibility and accountability encourage not only job satisfaction but also pride in the achievement of better standards of performance.

Ideally, a focus should be made on two main types of values that are likely to influence managerial performance and productivity. The first is founded on formal education as well as training into the organization's culture and policies. The second derives from entrepreneurial flair, personal drive and energy which lead to innovative values that exceed the bounds of the organizational framework. These two elements should be harnessed to generate business success. There is a particular positive aspect to business ethics, as noted by Kjonstad and Willmott (1995), which relates to the capacity to inspire empowered individuals and groups. It is allied to the degree of trust and integrity expected by the contemporary organization as well as being personally advantageous to those involved.

However, all is far from perfect with the empowerment scenario. This is because it can offer potential benefits as well as potential harmful effects. As a business practice, is empowerment really ethical in nature and substance? A theoretical platform to unite the practical with the ethical dimensions of organizations is provided by Golembiewski *et al.* (1992) and Garson and Vasu (1994). It demonstrates that a specific set of values guiding human relations are, in fact, empirically correlated with higher output and productivity. Several underlying ethical issues should be rigorously addressed by both management and employees. The most pertinent of these are illustrated in Figure 3.

Umiker (1992) is adamant that empowerment does involve **risks**; for example, it could lead to overconfidence which in turn can engender misjudgments in decision making. This is illustrated by the Barings Bank saga where the excesses of empowerment spelt corporate disaster. Andrews (1994) claims that the issue of mistrust is a hidden obstacle to operational development, especially as mutual **trust** forms the basic ethical foundation of employee empowerment. It is for this reason that a sound understanding and effective **communication** of business morality is paramount. Smith (1996) emphasizes the view that the entire empowerment process is substantially based on the twin pillars of trust and communication. It is often through the limitation of the brief given to the empowered

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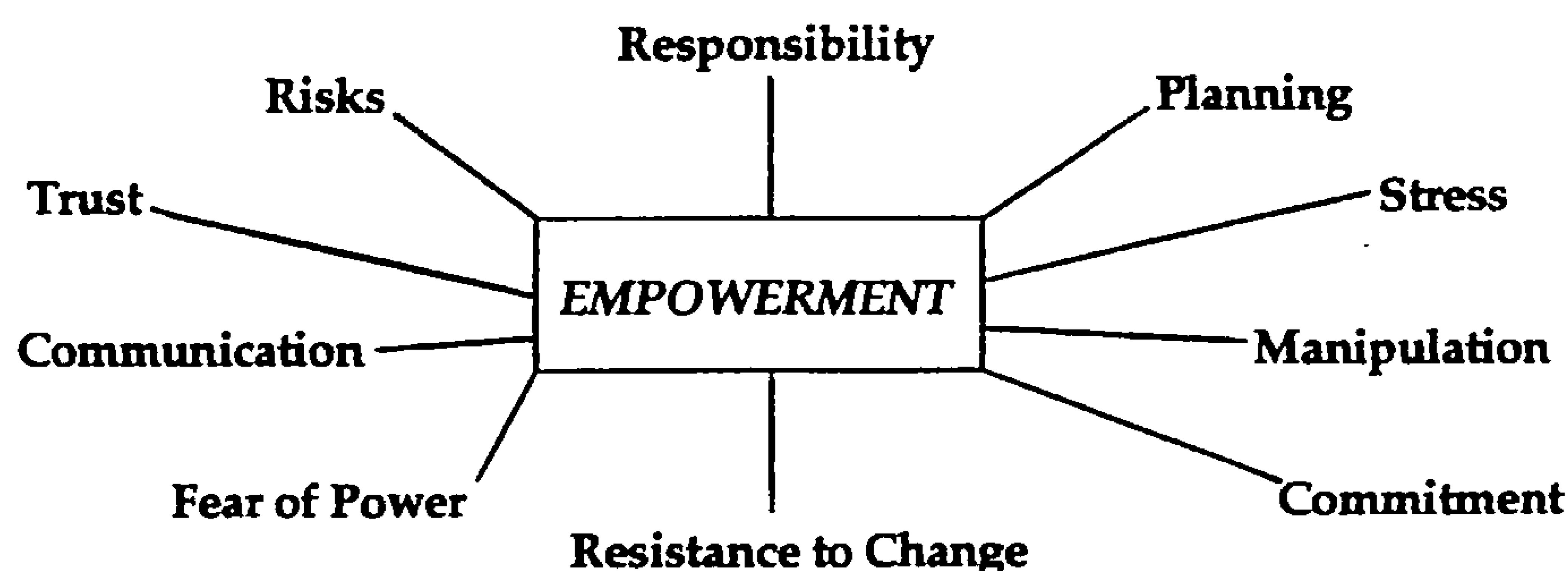


Figure 3. Empowerment and related ethical issues.

employee that various problems can occur and, in order for empowerment to triumph, improvements in the flow of information together with an investment in training are required. The latter is particularly relevant as not all employees are willing, or capable of, being empowered. In fact, in many instances, the characteristics of empowerment appear to be more of a burden than inducing freedom. Often, with the **fear of power**, whether giving or receiving it, **resistance to change** occurs. Handy (1995) states that a visionary leader who promotes change is not enough; what is required is the shared commitment with the personal contact—where 'High Tech' has to be balanced by 'High Touch' in order to build the 'High Trust' organization.

Management at the highest level must support the employees through being perceived more as facilitators than authoritarian leaders. When contemplating strategic organizational change through management techniques as business process re-engineering, it should not be seen as a cynical organizational 'quick fix' but more as a business improvement procedure that incorporates and appreciates the human factor.

The use of empowerment techniques can be viewed in two ways: favourably as an utilitarian principle or, unfavourably, as a device to **manipulate** employees to fulfil organizational goals. It can be argued that it is a management ploy to increase the workload and add extra burden on employees using the subtle bait of democracy. Empowerment can also be associated with delayering or downsizing. This almost certainly translates into fewer promotions and often truncated career paths although it may improve labour productivity in the short term. The ensuing consequence would unavoidably relate to placing additional **stress** on those concerned. Indeed, Kompier and Cooper (1999) believe that, through stress prevention, work, health and productivity may improve. In the United States, whilst companies, such as Ford Motor, seem to have benefited from empowerment in productivity and quality terms, others have started similar programmes with high expectations only to watch their efforts rapidly flounder. Consequently, a major problem seems to arise in relation to **planning**. Many organizations have not thought through the implementation of empowerment programmes enough to know that they might have to radically re-design their processes. Empowered workers may find themselves shouldering added **responsibility** if benefits are to stem as a result.

Stainer *et al.* (1999) state that an ethical organization expects and should disseminate ethical behaviour and fair treatment to all its stakeholders. In the case of empowerment, this relates to its employees. Schermerhorn (1999) believes that business decisions and actions will always be affected, either wholly or in part, by individual values, beliefs and moral principles. Though personal ethics may

*An ethical organization should disseminate ethical behaviour and fair treatment to all its stakeholders*

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be exemplary, it would be unwise to think that they can be naturally aggregated within an organization in order to develop a good ethical environment. To harness the collective wisdom of the organization cannot be achieved by rigid hierarchical control. However, to say that empowerment is beneficial and should be embraced by all is too naive. Attempts at empowerment should be applied in the same manner as any organizational advancement in that sympathetic attention is essential to the operating context of the business. Clutterbuck *et al.* (1993) show that the organization should, unhurriedly, aim for high levels of organizational empowerment as well as employee commitment to it. As every organization has its own performance priorities and ethical profile, employees must clearly understand and appreciate any restrictions encountered in order to avoid possible frustration. The integration of ethics with empowerment is paramount for socially responsible and high performing contemporary businesses.

## Conclusion

Every organization should clearly specify what it understands by the concept of empowerment if it is to be relevant and meaningful. In order to be effective, it must be seen and marketed as a win–win strategy, which must be professionally managed and accepted, in the structure and operating context of the organization. There is no prescribed formula for its efficacy from both the viewpoints of the organization and its employees. Its appropriateness and applicability in strategic and ethical terms very much depends on the intricacies and complexities of:

- The business situation
- Employee relationships
- Individual personalities
- The level of the hierarchy at which empowerment takes place
- Whether success or failure affects peoples' careers
- Whether empowerment is common place, or recently introduced, within the organization

In the design of new organizational structures, Oram and Wellins (1995) believe that it is important to recognize that the social issues, human aspirations and interface of individuals and groups are taken into account as much as the technical aspects. The key is to discover how human and organizational assets can be balanced so that when combined they create value for both the employees and the business. Organizations must seek to promote a culture in which everyone has an interest in and ownership of his or her own knowledge, learning and development. To be a high performer, the skills required should be provided not only to achieve tasks but also to gain job satisfaction and to feel committed. The most durable and exclusive competitive weapon is a workforce that is valued and feels special when striving for world-class standards of performance.

The organization's success should be perceived as its own. What is required, therefore, is to manage its intellectual and productive latency to become involved in building sound relationships and be inspired rather than just respond to management initiatives. If it is not suitably empowered and encouraged, the organization's efforts to innovate will most likely fail. Empowerment must not be seen as a human resource management gimmick or, as Bartlett (1998) calls it, a 'bumper sticker' phrase, but be perceived more as a shift in corporate governance. This view is affirmed by Cannon (1996) who states that managers who seek to empower their employees add new dimensions to their relationships as well as move beyond delegation of activity to the allo-

*Empowerment must not be seen as a 'bumper sticker' phrase, but be perceived more as a shift in corporate governance*

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cation of authority. Fundamentally, empowerment can engender an intrapreneurial ambience, such as a kinship and excellence culture but it should be handled with care.

## Biographical notes

*Alan Stainer* is a Professor of Productivity and Performance Management as well as Head of Engineering Management at Middlesex University Business School. He is Fellow of the World Academy of Productivity Science, Founder Director of the International Society for Productivity and Quality Research, Chartered Engineer and Management Consultant.

*Lorice Stainer* is a Research Fellow in Business Ethics at the University of Hertfordshire Business School, Member of the Institute of Management Services and European Institute of Industrial Engineers, Member of the Institute of Social and Ethical Accountability as well as a Business Ethics Consultant with Ethical Dimensions.

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APPENDIX III

# Statements of Contribution

# from Co-Authors

# for Each of the

# Journal Articles Presented

**Statement of Contribution**
**by Lorice Stainer**
**from Co-Author**
**Article 1**

**IS IT ETHICAL TO COMPETE ON ETHICS?**

*Business Ethics - A European Review*
ISSN 0962-8770
Vol.4, No.4, October 1995, pp.219-224
A. Stainer as co-author

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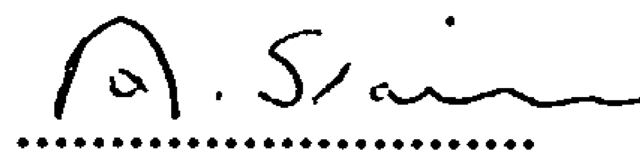
|---|---|
| Design of Article | 50% |
| Practical Execution of Article | 60% |
| Critical Analysis of Article | 50% |
| Preparation of Manuscript for Publication | 65% |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Alan Stainer

Date: 7/01/03

**Statement of Contribution**
**by Lorice Stainer**
**from Co-Author**

Article 2

PRODUCTIVITY, QUALITY AND ETHICS - A EUROPEAN VIEWPOINT

*European Business Review*
ISSN 0955-534X
Vol.95, No.6, 1995, pp.3-11

A. Stainer as co-author

Received a 1997 Literati Club Award for Excellence

| | |
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| Design of Article | 50% |
| Practical Execution of Article | 65% |
| Critical Analysis of Article | 50% |
| Preparation of Manuscript for Publication | 65% |

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Alan Stainer

Date : 7/01/03

**Statement of Contribution**
**by Lorice Stainer**
**from Co-Authors**

Article 3

ENVIRONMENT, TECHNOLOGY AND CORPORATE RESPONSIBILITY

*International Journal of Environment and Pollution*
ISSN 0957-4352
Vol.6, No.2/3, 1996, pp.149-159
A. Stainer & A. Ghobadian as co-authors

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| Design of Article | 40% |
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| Preparation of Manuscript for Publication | 65% |

Alan Stainer

Abby Ghobadian

Date: 7/01/03

**Statement of Contribution**
**by Lorice Stainer**
**from Co-Author**
**Article 4**

**PRODUCTIVITY AND PERFORMANCE - A VALUE-BASED APPROACH**

*Journal of Applied Management Studies*
ISSN 1360-0796
Vol.5, No.1, 1996, pp.5-16
A. Stainer as co-author

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Alan Stainer

Date: 7/01/03

**Statement of Contribution**
**by Lorice Stainer**
**from Co-Author**

Article 5

ETHICAL DIMENSIONS OF RE-ENGINEERING

*Journal of Strategic Change*
ISSN 1086-1718
Vol.6, No.6, 1997, pp.357-365

A. Stainer as co-author

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| Design of Article | 55% |
| Practical Execution of Article | 60% |
| Critical Analysis of Article | 60% |
| Preparation of Manuscript for Publication | 65% |

Alan Stainer

Date : 7/01/03

**Statement of Contribution**
**by Lorice Stainer**
**from Co-Authors**

Article 6

THE ETHICS OF TAX PLANNING

*Business Ethics - A European Review*
ISSN 0962-8770
Vol.6, No.4, 1997, pp.213-219
A. Stainer & A. Segal as co-authors

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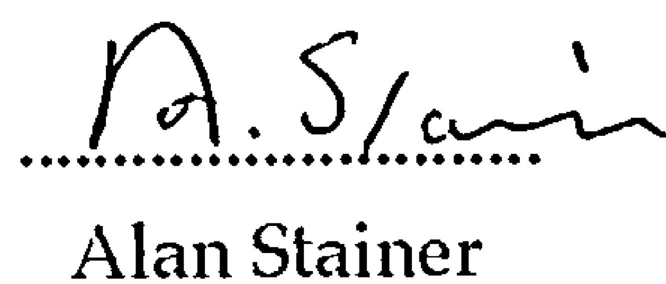
| Practical Execution of Article | 45% |
| Critical Analysis of Article | 35% |
| Preparation of Manuscript for Publication | 65% |



Alan Stainer

Alexandra Segal

Date: 7/01/03

**Statement of Contribution**
**by Lorice Stainer**
**from Co-Author**

Article 7

# ETHICAL DIMENSIONS OF ENVIRONMENTAL MANAGEMENT

*European Business Review*
ISSN 0955-534X
Vol.97, No.5, 1997, pp.224-230

A. Stainer as co-author

Received the 1998 Literati Club Best Paper Award

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| Preparation of Manuscript for Publication | 65% |

Alan Stainer

Date : 7/01/03

**Statement of Contribution**
**by Lorice Stainer**
**from Co-Authors**

Article 8

THE UK FOOD SUPPLY CHAIN - AN ETHICAL PERSPECTIVE

*Business Ethics - A European Review*
ISSN 0962-8770
Vol.7, No.4, October 1998, pp.205-211

A. Stainer & A. Gully as co-authors

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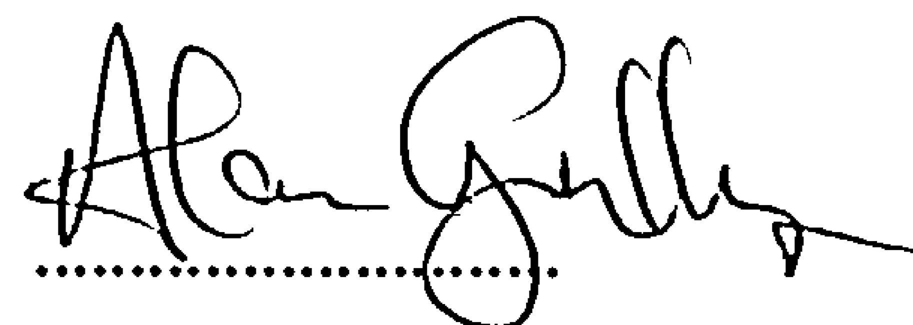
| Preparation of Manuscript for Publication | 60% |

Alan Stainer


Alan Gully

Date : 7/01/03

**Statement of Contribution**
**by Lorice Stainer**
**from Co-Author**
**Article 9**

# BUSINESS PERFORMANCE - A STAKEHOLDER APPROACH

*International Journal of Business Performance Management*
ISSN 1368-4892
Vol.1, No.1, October 1998, pp.2-12
A. Stainer as co-author

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| Preparation of Manuscript for Publication | 65% |

Alan Stainer

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**Statement of Contribution**
**by Lorice Stainer**
**from Co-Authors**

Article 10

ETHICS AND PERFORMANCE MANAGEMENT

*International Journal of Technology Management*
ISSN 0267-5730
Vol.17, No.7/8, 1999, pp.776-785

A. Stainer & A. Gully as co-authors

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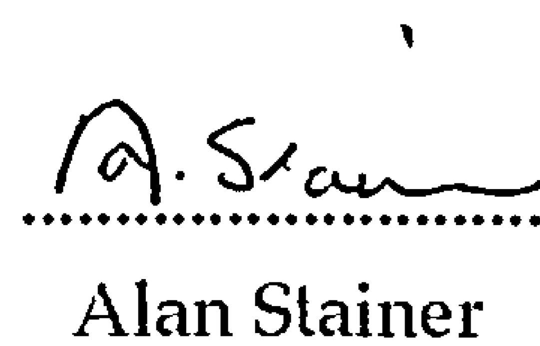
| Critical Analysis of Article | 40% |
| Preparation of Manuscript for Publication | 65% |



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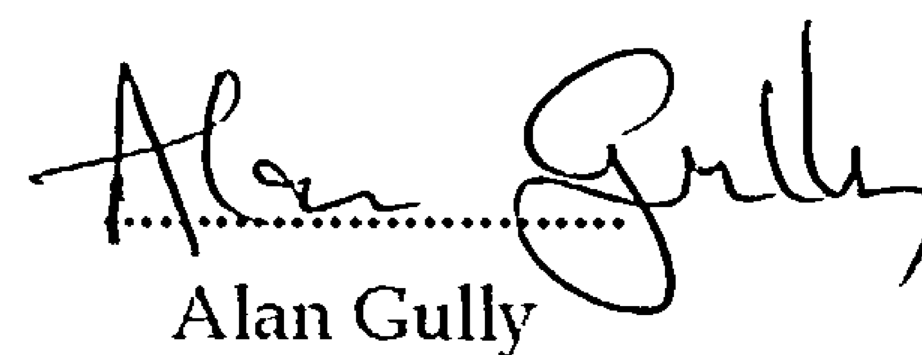

Alan Gully

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**Statement of Contribution**
**by Lorice Stainer**
**from Co-Author**

## Article 11

## EMPOWERMENT AND STRATEGIC CHANGE AN ETHICAL PERSPECTIVE

*Journal of Strategic Change*
ISSN 1086-1718
Vol.9, No.5, August 2000, pp.287-296
A. Stainer as co-author

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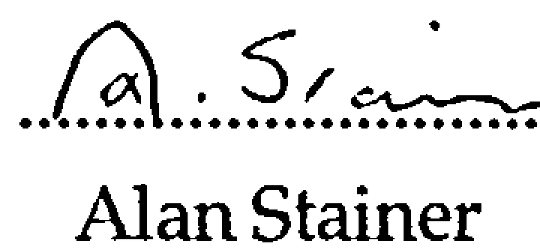
Alan Stainer

Date: 7/01/03

APPENDIX IV

## The Tylenol Case

In 1982, an unknown criminal poisoned Tylenol pain relief capsules - not tablets -with cyanide and seven people in the Chicago area died. Johnson & Johnson (J&J) and its manufacturing affiliate McNeil immediately alerted the public, the media, the medical community and the US Food & Drug Administration. Production of the capsules stopped and they were taken off the shelves at once all over the country, a recall of thirty-one million bottles. Only two further bottles of contaminated capsules were found, but no one else died.

The handling of this crisis in the interests of the public and the good name of the company was an admirable exercise of crisis management, greatly helped by the company's *Credo* - their ethical code. This had been written in the mid-1940s by Robert Wood Johnson, who headed the company for some fifty years. He was a pioneer of the principles of corporate social responsibility that went far beyond sales and profits. James E. Burke, J&J Chairman at the time of the crisis, said : 'We got through Tylenol by drawing on ninety years of public trust in the bank'. Indeed, the publicity J&J got for its responsible approach meant that they recovered market share remarkably quickly, that is 70% within five months. J&J has the benefit of goodwill from a public that recognised that the company was also a victim of senseless crime.

This crisis created an unusual test for management, that is to consider issues that were outside their expertise and not commonly a part of corporate decision making. J&J, as a result of this incident, introduced tamper-free packaging for some of its products with the extra-strength capsules being sold only in new triple-sealed packages. In bringing the brand back, all efforts had to be co-ordinated, in an integrated approach, to : safeguard the public image, ascertain conclusively the cause of the disaster, exchange at no extra costs capsules for tablets, virtually eliminate the likelihood of such an event happening again, put in place a promotion strategy which was founded on safety assurance, to generate recovery and give incentives to retailers and consumers to support the product.

However, in retrospect, J&J might have faulted for one decision, that is to continue marketing Extra-Strength Telenol in capsule form.. A tampering incident three years later, in February 1986 in Winchester County, New York, took the life of a woman. This finally convinced James Burke that the safety of capsules could not be assured. This time, all capsules were withdrawn and replaced by 'caplets' and 90% market share was recovered in five months. Its previous experience and the *Credo* again stood J&J in very good stead. Tom Blackburn, columnist of the *Miami News*, wrote : 'J&J is in business to make money. It has done that very well. But when the going gets tough, the corporation gets human and that makes something special in the bloodless business world.'

This is, indeed, a good example of admirable behaviour, at very considerable cost, proving to be very good for competitiveness in very difficult circumstances. An important change resulted in relation to the production and marketing environments of over-the-counter drugs.

*Sources : Hartley (1993), Wyburd (1998), Boatright (2000)*

APPENDIX V

## The 'Prestige' Tanker Case

The 'Prestige' 44,000-tonne Liberian-owned Bahamian-flagged tanker was built in 1976 at Japan's Hitachi Zosen shipyards; chartered by a Swiss-based Russian oil trader and operated by a Greek firm, it was bound for Singapore. In October 2002, it was checked in St. Petersburg, Russia. Yet, in November 2002, this tanker, carrying more than 77,000 tonnes of oil, has split into two and slipped beneath the waves in the Atlantic - on Spain's Galician North West coast, nicknamed the 'coast of death' because of the frequency of shipwrecks. A 30-50-foot crack in the hull below the water-line had made it unable to proceed under its own power while salvagers sought a port to carry out repairs. A 50-mile stretch of the coast was affected, leaving a 150-mile oil slick. A spill of the entire cargo of fuel would double that of the 1989 Exxon Valdez spill of 240,000 barrels of crude oil in Alaska, one of the worst ever.

The Smit Salvage company was not clear how much oil had spilled when the ship first ran into trouble; reports estimated about 4,000 tonnes. Attempts by salvagers to tow the stricken oil tanker to safety failed after both Spain and Portugal, who have responsibility for maritime rescues in the area, refused to allow the ship to dock. Portugal refused to let the tanker near its coast and reportedly sent a warship to ensure it stayed away. Spanish authorities claim that the tanker had not been inspected since 1999, despite regular stops in the British Colony of Gibraltar, this charge being denied by the British authorities. Salvagers had fought to prevent the tanker from splitting by turning it so that its ruptured hull no longer faced the waves.

This event is threatening an ecological and environmental disaster. Fishing was immediately banned. The 'Prestige' had already leaked fuel into a rich haven for marine life. More than 90 species of fish, such as dolphins, porpoises and shellfish are at risk from the chemicals which could have major effects on the food chain. The coast is also home to many sea birds, including one of Europe's largest populations of black-legged kittiwakes, along with cormorants and gannets. Green campaigners had demanded the tanker should be bombed and burned, rather than being allowed to sink.

A massive cleaning-up operation was under way; river mouths were protected with inflatable sheeting. Spain is facing more oil slick pollution and efforts to stop it reaching shore are being hampered by bad weather. The European Commission has demanded governments to enforce inspection rules drawn up in 1999 after the Erika oil spill polluted the French coastline in order to prevent similar incidents. Such new rules were adopted to check at least 25% of ships docking in EU ports, with ships registered in countries with lax rules to be given priority. There have been calls for weaker single-hulled vessels to be replaced, but this may not happen till 2015.

*Source : BBC Ceefax and ITV Teletext, 19/20 November 2002*
*BBC Ceefax, 15 December 2002*

APPENDIX VI

## The Super Total Productivity Index (STP)

The stakeholder approach encompasses the satisfaction of the needs and desires of customers (CS), employees (ES) and society (SS), to be linked to economic efficacy which, in the field of operations strategy, is best represented by the concept of total productivity (TP). Such an inclusive proposition can be developed into an umbrella framework, with each element to be weighted and tailor-made according to managerial priorities:

$$STP = CS + ES + SS + TP$$

**Customer Satisfaction (CS)** - consistently meeting customer requirements

- expectations relating to quality, price, delivery and perceived value of products or services
- actions as a consequence of customer feedback
- customer retention
- customer loyalty
- reliability of products or services

**Employee Satisfaction (ES)** - quality of work life for employees

- motivation
- training and development opportunities
- involvement, empowerment and responsibility
- health and safety
- staff turnover and absenteeism

**Societal Satisfaction (SS)** - achieving ethical and environmental objectives

- waste and pollution levels
- energy conservation
- environmental impact
- equal opportunities
- effects on the community

**Total Productivity (TP)** - reflecting the impact of all inputs on the output of goods and services

- relationship between the output of a process and all its inputs, with price effects removed
- the inverse of real unit cost

## EXAMPLES OF SUPER TOTAL PRODUCTIVITY

Two illustrative United Kingdom examples are given : the first relates to a medium-sized engineering manufacturing company and the second is a private nursing home. In order to employ the STP index, management at both organisations chose similar weightings to those incorporated in the 'results' scoring for the Model for Business Excellence of the European Foundation for Quality Management (EFQM) : 40% for customer satisfaction, 18% for people satisfaction, 12% for impact on society and 30% for business results. The period under study applies to 1997/1999 - base of 1.00 in 1997. The assigned weightings differed in both organisations according to managerial preference and judgement. The business results are reflected in each organisation's total productivity.

**Example 1** *Engineering Manufacturing Company*

| STP = | CS | + ES | + SS | + TP | |
|---|---|---|---|---|---|
| | (1.05) | (0.97) | (1.07) | (1.06) | indicator |
| | (0.40) | (0.20) | (0.15) | (0.25) | weighting |
| **1.04** | 0.42 | 0.19 | 0.16 | 0.27 | weighted indicator |

**Example 2** *Private Nursing Home*

| STP = | CS | + ES | + SS | + TP | |
|---|---|---|---|---|---|
| | (1.08) | (1.03) | (1.02) | (1.04) | indicator |
| | (0.38) | (0.20) | (0.12) | (0.30) | weighting |
| **1.05** | 0.41 | 0.21 | 0.12 | 0.31 | weighted indicator |

As can be seen, the STP is the sum of the weighted indicators. In the case of the engineering manufacturing company, it increased by 4% over the two years whilst for the private nursing home the growth was 5%. In both cases, the components can be analysed to identify areas of growth or decline and for improvement. Although the details given for both examples seem basic, when trends are developed over time, benchmarks can be ascertained against internal targets and external competition. In any instance, the contribution made by TP can be featured in the generation of overall stakeholder goals in the quest for operations excellence.

*Source : Stainer et al (2000)*

APPENDIX VII

## Bovince Ltd.

Bovince Ltd. is a family-run Small Medium Enterprise (SME) based in North East London, founded in in 1951. It is one of the largest screen process printers in Europe, employing 65 staff. It is half a century since it first began to make its name in cinema display advertising and, from these beginnings, has moved on to bigger screens. The company's dynamic approach to the challenges of the future has secured continued growth and development ensuring the highest quality in screen printing.

The company strives for quality across all areas of its business operations. It is ISO 9002 accredited for quality assurance and remains one of the few organisations in Europe to be awarded ISO 14001 and the prestigious European Union's Eco-Management & Audit Scheme (EMAS) 'blue flag' for vigorous environmental quality control. It was also one of the first ten organisations to achieve the Good Corporation Standard. Recognising the essential importance of its staff, it is fully committed to developing its workforce through the 'Investor in People' initiative, NVQ training and successful apprenticeship scheme. Such impressive standards have encouraged the DTI to select Bovince for its 'Inside UK Enterprise' programme, a showcase for outstanding business practice. Bovince works on a strategy of integrating the criteria of these management systems with transparency, going beyond normal business activity and looking at how the impacts of people development and behaviourism affect outcomes. The umbrella for the company's activities is the European Foundation for Quality Management (EFQM) Excellence Model. Bovince is committed to sustainability through its working agreement with the Σ Sustainability: Integrated Guidelines for Management (SIGMA) steering the company towards a sustainable future, involving all aspects of corporate and environmental activity. Moreover, Bovince received the Queen's Award for Sustainable Development in 2001.

Bovince's objectives are "to be the best known screen process printers in the industry and to become synonymous with quality through continuous improvement of its products, operations and employee skills". In order to achieve this, the company has a firm commitment to the environment and social accountability. This is founded on its philosophy to create tomorrow's company today, based upon sustainable and practical partnerships between business and society. It is convinced that such partnerships continue to bring a competitive advantage in the market place.

The extent, success and recognition of Bovince's commitment to social responsibility, the environment, people and sustainability belies the notion that such issues are of no consequence or importance to small and medium enterprises; neither, as is so often believed, are they just an additional cost factor. Bovince's experience clearly demonstrates that corporate social responsibility and increased profitability, in a competitive market, can be achieved in tandem by an SME. Such a stance generates a powerful driver for business success, adding shareholder value.

*Source : Peter Rosen, Director, Bovince Ltd. (December 2002)*