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Ethical Behaviour Integrated in CSR: How to create and maintain the Corporate Reputation

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ABSTRACT

L'obiettivo di questo studio è di definire come la Corporate Social Responsibility (CSR) e il comportamento etico siano legati e rappresentino le condizioni di esistenza del Sistema corporate, inteso come una duratura oganizzazione di invididui o istituzioni che produce risultati per gli stakeholders esterni. Le organizzazioni possono considerare il comportamento etico come un modo per differenziare loro stessi attraverso le relazioni che possono creare con gli stakeholders. L'analisi della letteratura internazionale sarà accompagnata dal caso di studio dell'azienda L'Oréal, nella quale il comportamento aziendale è importante tanto quanto la performance economica e la qualità dei suoi prodotti.

The objective of this study is to point out how the Corporate Social Responsibility (CSR) and the Ethical Behaviour are linked and represent the conditions of existence for the corporate system, understood as a long-lasting organization of individuals or institutions which produces outcomes for the external stakeholders. Organizations can consider ethical behaviour a way to differentiate themselves through the relationships that they create with stakeholders. The analysis of the international literature will be accompanied by the case study of the company L'Oréal. The L'Oréal company's behaviour is as important as its economic performance or the quality of its products.

Keywords: Corporate Social Responsibility, Ethics, Corporate Reputation, Behaviour, Stakeholders

1 – Introduction

In the global word the business models are changing. Globalisation, climate change, social inequality and demographic changes are changing the traditional business model, which was founded on the increasing of shareholder value. The international crisis and the massive corporate scandals, of the last years, create a climate of loss of trust in business. Nowadays organizations need to demonstrate the ethical and transparent business practices. The organizations need to answer to the increasingly demanded by consumers, employees, corporate investors, governments and other stakeholders (Gazzola & Colombo, 2014).

In the past, the generally accepted view on morality and business was that they were separated. To act morally was to act weakly, and in the business environment this means that companies were dead companies. Now we are facing a new situation. In today's business environment, organizations are finding that immoral behaviour can become dangerous. In these years, business ethical behavioural is becoming more and more important and complex. Organizations, as social systems (Mella, 2014), are subject to the action of international organizations and of governments, as well as to pressure from civil society, which asks with increasing insistence that they set forth the conditions of accountability for their own actions, so that they are judged not only for the "effects" of these actions but for their "intentions" as well. Consumer boycotts, organized actions by citizen groups of entire local communities, protests by non-governmental organizations (such as GreenPeace or Amnesty International), collective movements such as those by environmentalists, press campaigns that become particularly widespread and virulent in the wake of natural catastrophes or egregious violations of human rights: these all represent expressions of an increasingly louder "voice" of civil society, which can influence business decisions (Mella & Gazzola, 2015).

The research shows how ethics serves to build a good reputation and how it serves as a firewall that limits damage when something goes wrong. This paper uses a multi-stakeholder perspective. The research methodology is based on the theoretical analysis which, shifting from a general conceptual framework on the topic, analysis of available literature on sustainability frameworks, as well as methodologies for the integration of the ethical behaviour, reputation. and the conditions for the firm's existence while taking into consideration the literature of reference (among other works: Evan & Freeman, 1988; Bowie, 1991; Clarkson, 1995; Windsor, 2002; Phillips, 2003; Werhane, 2007; Goodstein & Wicks, 2007). For the research the authors use some of the basic methods of the scientific research to obtain the information necessary to the complex systemic processing of the issue. The authors predominantly use methods of qualitative research.

The first part is about the literature review. The authors describe and synthesize the literature on the topic of CSR, ethics and reputation because the concepts are very wide and varied. The literature and definitions research was conducted analysing the lines of thought retrieved in the major and specialized journals. The second part is about the ethical behaviour. The main contribution of this line of research is to explain the important relation between ethical behaviour and reputation. The work sexplains how this relation is the conditions of existence for the corporate system. The result of the research shows that when stakeholders think highly of an organization, it is more likely to receive the benefit of the doubt when addressing a controversy or crisis. The work explains that ethics gives the importance of ethical behaviour and integrity in building trust, in this way ethics can play a vital role in sustaining an organization's reputation. However, reputation management also requires a thoughtful communications program to inform key audiences about an organization's values and performance.

2 - The literature review

The changes in the economic and social context have led to greater attention to the satisfaction of stakeholder expectations since this will impact the success of the firm (Gazzola & Mella, 2015). According to the stakeholder approach, organizations should be accountable not only to their shareholders but also to all "people at stake" (Freeman, 1984: 46). Freeman described stakeholders as "any group or individual who can affect or is affected by the achievement of the organization's objectives". Carroll (1991) suggests that business has a social role in society. This is normally understood as the economic, legal, ethical and philanthropic responsibilities that organizations may have. Blaga (2013) analyses the development of CSR and the increased focus on the need for organizations to demonstrate socially desirable behaviour. He considers CSR a business strategy for achieving sustainable growth, in this way organizations can do well by doing good for communities.

According to Porter and Kramer (2006) organizations may find themselves caught between the demand for a new, more "ethical" approach to business, and the idea of investors for maximum short-term profits. The concept of ethics and reputation has been a major concern of researchers since the 1950s. There is a consensus among scholars and practitioners alike that the way in which the public perceives a company influences corporate success (Fombrun, 1996). However, there is no common definition of ethics for business and reputation constructs; several scholars have adopted different, even contradictory definitions of them (Barnett et al., 2006). Organizations should recognize the importance and need to consider concepts such as: ethical, moral, ethical programs, ethical behaviour, social responsibility and equity, and also try to implement these in their organizational culture (Nunes & Simescu, 2010). These factors have led to a growing interest in, and to the evolution of, the concept of social responsibility, with a shift from the respect of stakeholder expectations to the responsible behavior of firms, which is intended to bring out and strengthen the social citizenship of the firm and the "rectitude of the firm" (Keeley, 1988).

This paper considers the definition of ethics according to Miesing and Preble (1985): "Ethics are frameworks for human conduct that relate to moral principle and attempt to distinguish right from wrong". Also Mason, Bearden and Richardson (1990) defined ethics in similar way, as the "inquiry into the nature and ground of morality, in which morality is defined in the context of moral behavior. Gbadamosi (2004) considers business ethics as a set of rules that stipulate how businesses and their employees ought to behave. The perception of business ethics in a company generates an ethical climate.

The third definition we used is reputation. Reputation is clearly a concept held in the minds or cognition of stakeholders (Brower & Shrader, 2000; Rhee & Haunschild, 2006). As Fombrun defines it: "a corporate reputation is a perceptual representation of a company's past actions and future prospects that describe the firm's overall appeal to all of its key constituents when compared with other leading rivals" (Fombrun, 1996). Alternatively, Gray and Ballmer display corporate reputation as a valuation of a company's attributes performed by the stakeholders, where affective components are almost completely excluded (Gray & Balmer, 2006; Brown & Perry, 1994). The most important stakeholders that effect corporate reputation are customers and employees (Kitchen & Laurence, 2003). According to Roberts (2003: 168) the firms "maintain good reputation if they continue to meet the expectations of their key stakeholders, which for most companies includes a high level of corporate social responsibility". Fombrun and van Riel (1997) propose an integrative definition of the reputation construct by describing it "as a collective representation of a firm's past actions and results that describe the firm's ability to deliver multiple stakeholders. Deephouse, (2000), Roberts and Dowling (2002) view reputation as a unique resource, since it is hard to imitate. Rindova et al. (2005) consider that reputation reduces the uncertainty for stakeholders by signaling positive attributes of the companies, such as product quality.

Little has been written so far about the correlation between CSR, ethical behaviour and reputation, which can be shown by inserting the three concepts into a systemic business context.

3 - The organization's behaviour

Organization's behaviour is fundamental for organization's success and it's becoming a much more important concept in practice and a central part of corporate governance. It defines the relationship between organization and stakeholders. The behaviour is connected with ethics and CSR base in order to refer to that behavioural aspect. Corporate behaviour involves legal rules, ethical codes of conduct and social responsibility principles (figure 1). We consider the relativity of ethical behaviour by interpreting the firm as "a system open to the environment and governed by subjects that live in given contexts and who bring with them, in carrying out their business management functions, the needs, culture and morality that characterizes them as part of an organization which desires or promotes such values and which expresses these more or less forcefully and consciously. The ethics in a firm is composed of the same features as that which one finds in the socio-economic context in which the firm operates. This initial awareness introduces the concept of the relativity of ethical behaviour in time and space" (Cavalieri, 2007: 31).
Ethical organizations carefully consider the implications of what they are doing and the effect it might have on the community and the environment. Ethics is about doing the right thing. Ethical behaviour requires organizations to act in ways that stakeholders consider to be both fair and honest. Managers making ethical decisions need to consider the impact of decision if affect or harm and if the decision is considered fair by those affected. Some entrepreneurs believe that acting ethically increases costs and so reduces profits. In the past, for example, some companies cut costs by hiring child labour at very low wages in developing countries reducing the firm's total costs. Other companies have built an ethical brand image, believing that customers are prepared to pay more for products that consider the environment and pay a reasonable wage. Higher sales compensate for higher costs. Profits from acting ethically could be higher than firms that only consider their own narrow self-interest.
To be a socially responsible corporation, an organization must be more than a legal and ethical person. These companies avoid also the risks of scandals. CSR is not always a legal necessity; increasingly it is an obligation. However, a company has to be socially responsible even though it is not a legal obligation (Aras & Crowther 2008) - which is one of the most important characteristics of CSR. At this broader level ethical behaviour and CSR are very interconnected. Carroll (1979: 500) describes CSR in these terms: "the social responsibility of business encompasses the economic, legal, ethical, and discretionary expectations that society has of organizations at a given point in time". After his definition, Whetten et al. (2002: 374) defined CSR as "societal expectations of corporate behaviour; a behaviour that is alleged by a stakeholder to be expected by society or morally required and is therefore justifiably demanded of a business". Following from the first definition, the CSR definition expanded and covered more corporate behaviour and stakeholder expectation. On the other hand, some broad terms - especially society - have been narrowed to stakeholders.

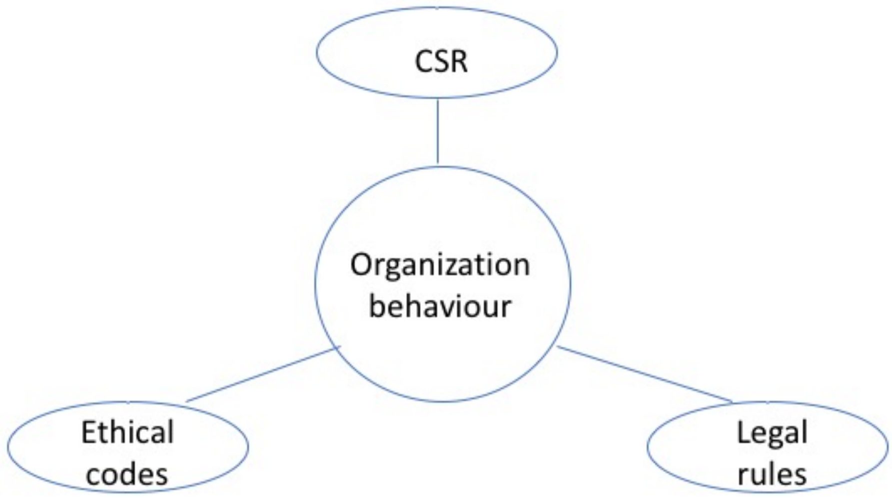

Figure 1 - Organization behaviour

4 - Does ethical behaviour increase reputation?

We consider business ethics to be the moral principles that guide the way a business behaves toward its internal and external stakeholders. The same principles that determine an individual's actions also apply to business (van der Merwe, Berthon & Pitt, 2003). Business ethics has now become an important component of CSR. Over the past decade, CSR has emerged from its philanthropic foundations and broadened with respect to its narrow association with instrumentalism. It has shifted from a "corporate-centred" to a "corporate-oriented" concept extended to "new accountability" principles (McBarnet, Voiculescu & Campbell, 2007), and it has become an important part of new governance systems. CSR now involves government, business and civil society (Scherer & Palazzo, 2007) and is necessarily connected with business ethics. Ethics offers a way to attract and retain the talented people who are going to drive the ethical behaviour of the organization. A good ethics policy will also mitigate the stress that can generate health problems or lead people to leave the company.

The ethics of a business depends on the company's culture. The decision to do activities ethically is an example of moral behaviour. All corporations have to decide what to do and how to do it in order to align their behaviour with their ethical values. Philippa Foster Back (2015), Director of the Institute of Business Ethics (IBE) identifies three essential levels when establishing the ethics policy: to identify the company's values to be able to explain the vision to employees and stakeholders; to create a code of ethics that provides practical guidelines for employees to follow day by day and to bring that policy to life for every employee. It's important to align ethical standards to the company's way of doing business.

Building a positive and strong corporate reputation is very challenging. A company can initiate to develop strategies, beginning with identifying and defining the vision, mission, and values of the firms, highlighting the firm's ethical behaviour. Each stakeholder has particular perspective and different degree perception towards an organization. Stakeholders are affected by the actions of the organization and in turn, their reactions can affect the organization. When stakeholders trust, admire, and respect a company, empathy is built providing affirmation towards the company's corporate actions, such as strategic investment, joining its programs/ campaign, buy their products, etc. The concept connected with organization behaviour, which is of growing importance for business management, is the corporate reputation. Nowadays organisations focus on intangible factors in order to compete and differentiate their services and products in an environment, which is characterized by rapid changes. The reputation of the organizations is often the most important factor in gaining a competitive advantage as well as building financial and social success. The corporate reputation generally refers to how stakeholders, customers, employees, shareholders, local communities as well as the industry perceive a company. Reputation can explain why customers choose one product or service in preference to somebody else and can make the difference between success and failure of the business. "It takes 20 years to build a reputation and five minutes to ruin it. If you think about that, you'll do things differently" (Buffett, 1995: 109). A well-deserved reputation has been diligently built up over many years and can be damaged in a day by circumstances that are relatively insignificant when seen against the overall picture. Sometimes a company's reputation may be harmed by adversity, but the same company can emerge from the episode with its reputation enhanced. It depends to the way it manages the situation.

Martín de Castro et al. (2006) divided the reputation concept into two components: business reputation and social reputation. The first includes different aspects of corporate reputation related to stakeholders closely tied to business activity, such as customers and employees. The second involves the insights and perceptions of stakeholders not so close to the daily operation of a firm, who are known as the community. This reputation would be based on social and green actions and policies. There are many benefits claimed for being perceived as having a good corporate reputation. One of the main is concerned with the fact that it improves shareholder value; a strong corporate reputation inspires confidence in investors, which in turn leads to a higher stock price for a company. It brings increased customer loyalty to the products of the company. A positive customer perception of a company extends to its products. Equally a strong corporate reputation is an influential factor for forming partnerships and strategic alliances as the partner company has the potential to improve its own reputation by association. Similarly, a company with a solid reputation is more influential on legislative and regulatory governmental decision-making.

Employee morale and commitment are higher at corporations with a good corporate reputation. At a time of a crisis a good corporate reputation can shield the company from criticism and even blame and can help it communicate its own point of view more easily to audiences that are willing to listen to its point of view. A good example is the Pepsi Cola tampering case according to which products on sale were found to contain material injected by hypodermic syringes. Pepsi dealt effectively with the crisis by defusing public alarm with a public relations campaign that highlighted the integrity of its manufacturing process and its corporate credibility.

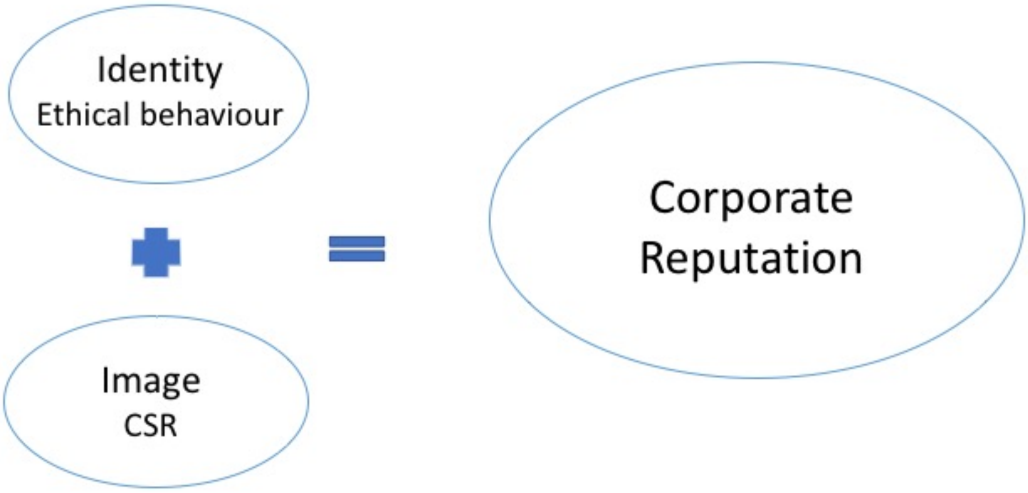

Figure 2 - Corporate Reputation

5 - L’Oréal

L'Oréal Group is the largest cosmetics and beauty corporation in the world (Rooney, 2014). It offers beauty product innovation to women and men with regards to their diversity through its large portfolio brand that is present in 140 countries with 89.300 employees (L'Oréal, 2017). According to Abnett (2015), L'Oréal has strong growth. The group achieved a significant growth in sales and robust profits in 2016. Operating margin and cash flows have set new records, confirming that L’Oréal’s business model is set to deliver robust performance and create significant value (L’Oreal, 2017).

A company’s behaviour is as important as its economic performance or the quality of its products. In this regard, L’Oréal’s ambition is to be an exemplary company worldwide and integrate ethics into the very heart of its business practices. In 2000, L’Oréal was one of the first companies in France to establish a Code of Business Ethics and to appoint, in 2007, a Chief Ethics Officer. In 2008, L’Oréal’s Chairman and CEO, Jean-Paul Agon, received the prestigious Stanley C. Pace Leadership in Ethics Award. In 2003 L’Oréal signed the United Nations Global Compact, it is one of the 100 companies included in the Global Compact 100 stock index and is a signatory of the Women’s Empowerment Principles, an initiative of UN Women and the Global Compact. L’Oréal organizes an annual Ethics Day where employees from around the world can chat online with L’Oréal’s Chairman and CEO and their country General Manager about ethics. In 2014, L’Oréal launched the 3rd edition of its Code of Ethics, which is now available in 45 languages and in Braille in English and in French, as well as a new ethics e-learning in 22 languages. L'Oréal named as a 2017 world's most ethical company by the ethisphere institute for the 8th time.

L’Oréal’s approach to ethics is about having a large international staff adhere to a common set of ethical principles, engaging them, and helping them to make good decisions in situations where there are no clear-cut solutions. This goes beyond simple compliance with rules and, to emphasise this, its ethics and compliance departments are separate, with its chief ethics officer reporting directly to the chief executive. The company has four ethical principles: integrity, which enjoins people not to lie or cheat; respect, which reminds them to treat others as they would wish to be treated themselves; courage, which recognises that ethics is not always easy and so encourages them to speak up if they have concerns, recognising that for many people this is very difficult; and transparency, which promotes an open environment in which there is less need for formal procedures and controls. L'Oréal's Ethics Days programme enables employees to ask questions to Group management through an online chat system, calling it "a perfect example of participative communication". Group training is another fun way to get people working together.

L'Oréal is in first place of the "reputation quotient" that was used this year for the first in France to evaluate the reputation of companies. The ranking, which singles out the largest French and international companies (Danone, Microsoft, Peugeot-Citroën, Carrefour, Air France, etc.). L'Oréal received the top marks in 4 of the 6 selection criteria: financial performance, appeal, vision and leadership, products and services. The company ranked 2nd for human resources and 3rd for social responsibility. Generally speaking, it seems that Europeans – and especially the French - judge their companies more harshly than Americans.

6 - Conclusions

Organization ethical behaviour influences not only stakeholders and shareholders but also the entire economy. If an organization acts ethically and socially responsibly in the business decisions and strategic planning, the organization will be more sustainable. Ethical organization behaviour is increasingly seen as essential to CSR and reputation than for long term survival of organization.

The reasons that push companies to voluntarily disseminate information about their ethical behaviour (Michaelson, 2010) and their relationship with the social and natural environments are characterized by the consequent advantages in terms of economy, image and credibility that increase their overall value (Siegel, 2009; Skrabec, 2003; Orlitzky et al., 2003). Reputation is focused on a medium/long-term result. It takes time, effort and money to develop a positive and strong reputation in return increasing the company's value (Ma & Osiyevskyy, 2017), strengthen the company's position and provide sustainable competitive advantage.

In all size of businesses, reputation is the most valuable asset in promoting an organization. Employee morale and commitment are higher at corporations with a good corporate reputation. At a time of a crisis a good corporate reputation can shield the company from criticism and even blame and can help it communicate its own point of view more easily to audiences that are willing to listen to its point of view. To spread a culture of ethics within the organization, it's necessary encourage people to communicate.

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