

Analysis of Enterprise Performance Evaluation in Terms of Environment and Ethics

*¹Buşra Taşkan, ²Cemalettin Kubat and ³Buket Karatop

*¹Faculty of Engineering and Architecture, Department of Industrial Engineering Muş Alparslan University, Turkey

²Faculty of Engineering, Department of Industrial Engineering Sakarya University, Turkey

³Vocational School of Technical Sciences, Department of Motor Vehicles and Transportation Technology İstanbul University, Turkey

Abstract

It's unavoidable that nowadays enterprises must evaluate their performance to maintain their presence. Enterprise performance evaluation is multi-dimensional, complicated and a difficult process that much. Nowadays, environment is one of the most important dimensions for evaluating enterprise performance. In this context, the environment is seen as one of the important stakeholders of enterprise. Reasons which push enterprises to consider environment factor in evaluating enterprise performance are related to legislative and market-based. Because of these interactions it's seen that enterprise performance evaluation frameworks being developed usually include environment dimension. Exhibiting ethical conduct of enterprises increase brand value of product in addition to improving corporate image and is a factor which increases the confidence of its stakeholders towards the company. When considered from this point of view ethical performance is become one of success criteria for enterprises anymore. In this study position of these dimensions in enterprise performance evaluation will be examined by emphasizing methods.

Key words: Enterprise performance, environment, ethics

1. Introduction

With the globalization of the world boundaries in the trade disappeared, competition between firms which is in the regional or national level, ceased and has been moved to international dimensions. However, customers' products and/or services evaluation perception has also begun to change. Customers began to evaluate products and/or services not only in terms of price and quality but also in terms of social and environmental impacts of product (Odenwald and Berg, 2014). On the other hand in the early 1970's with the establishment of government bodies such as the Environmental Protection Agency (EPA), the Equal Employment Opportunity Commission (EEOC), the Occupational Safety and Health Administration (OSHA), and the Consumer Product

*Corresponding author: Address: Faculty of Engineering and Architecture, Department of Industrial Engineering Muş Alparslan University, 49250, Muş TURKEY. E-mail address: b.taskan@alparslan.edu.tr, Phone: +904362491081

Safety Commission (CPSC), national public policy officially accepted environment, employees and consumers as important and legal stakeholders of the enterprise (Carroll, 1991). All these developments prompted enterprises to think that they are responsible to the community and to consider effects of their activities on the society.

Increased participation of institutions to corporate social responsibility activities hasn't been entirely voluntary. In many examples institutions was forced to adopt these activities under public pressure, media exposure and encouragement of governments (Fernando, 2009). Different definitions for corporate social responsibility concept which still hasn't agreed upon its general definition and definition of it changes for many years, are made by academics. These definitions can be categorized in terms of two different aspects (Simpson and Taylor, 2013);

- ✓ Only responsibility of an enterprise is towards their stakeholders and the responsibility is to maximize profits,

Friedman (1962)'s definition can be given as an example to this opinion; "There is one and only one social responsibility of business – to use its resources and engage in activities designed to increase its profits so long as it stays within the rules of the game, which is to say, engages in open and free competition without deception or fraud."

- ✓ An enterprise isn't only responsible towards its stakeholders which are interested only profit maximization, it has responsibility as a whole towards society.

The definition of Carroll (1979) can be given as an example to this opinion which is supported by many academics; "The social responsibility of business encompasses the economic, legal, ethical and discretionary expectations that society has of organizations at a given point in time."

One of the most commonly used definitions about corporate social responsibility is definition of The World Business Council for Sustainable Development; "Corporate social responsibility is the continuing commitment by business to behave ethically and contribute to economic development while improving the quality of life of the workforce and their families as well as of the local community and society at large."

When corporate social responsibility definitions are examined, it's seen that an enterprise has economic, legal, ethical, environmental and humanistic responsibilities towards the society in which they are. It's unavoidable that nowadays enterprises must evaluate their performance to maintain their presence. Enterprise performance evaluation is multi-dimensional, complicated and difficult process that much. As mentioned above if the enterprises have responsibilities towards the society in which they are, the necessity of measuring enterprise performance in terms of these dimensions is an unavoidable reality. In this context, the environment is seen as one of

the important stakeholders of enterprise. Exhibiting ethical conduct of enterprises increase brand value of product in addition to improving corporate image and is a factor which increases the confidence of their stakeholders towards the company. When considered from this point of view ethical performance is become one of success criteria for enterprises anymore. Based on the mentioned importance of environment and ethics dimensions in enterprise performance evaluation, in this study position of these dimensions in enterprise performance evaluation will be examined by emphasizing methods.

2. Ethics

Origin of the word ‘ethics’ is Greek ‘Ethikos’ which means custom or character (Fernando, 2013). The Oxford dictionaries define ethics as “Moral principles that govern a person’s behaviour or the conducting of an activity”, Raiborn and Payne (1990) defines the term as “Ethics is a system of value principles or practices and a definition of right and wrong”. The ethics is one of the branches of philosophy and is a normative science. From this aspect the ethics is distinguished from the formal sciences such as mathematics and logic, the physical sciences such as chemistry and physics and the experimental sciences such as economics and psychology (Fernando, 2013). The ethics doesn’t mean the same thing with religion, law, feelings, cultural traits and it’s not a science which consists of only from values (Fernando, 2012). Foundation of the ethics consists of ethical theories whose histories go back until the 19th century. The different ethical theories adopted by majority, can be classified as in Figure 1 (Smith, 2012);

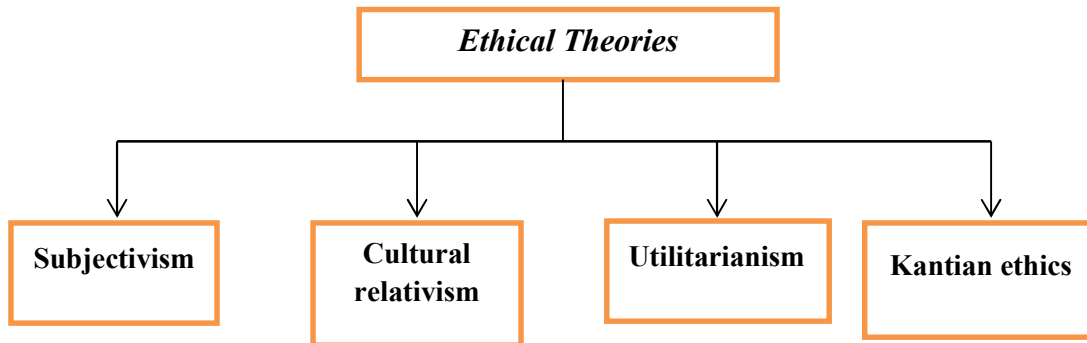


Figure 1. Ethical Theories

Ethical subjectivism assumes that the ethics is expression of persons’ opinions and attitudes. Ethical cultural relativism is based on the idea that right and wrong vary according to persons’ cultures. Ethical utilitarianism advocates the idea that the actions which provide maximum benefit to most individuals, are ethics (Smith, 2012). Kantian ethics is proposed by Immanuel

Kant and it's based on the assumption that actions and ethical attitudes of people are result of inclination and duty (Panza and Potthast, 2010).

Ethics is divided into three branches namely metaethics, normative ethics and applied ethics. Metaethics focuses ethical theories, development of these theories and social, religious, spiritual and cultural influences which have shaped these theories. Normative ethics emphasizes what is right or wrong in behavior and practical aspects with providing good or bad guidance or appropriate behavior principles. Applied ethics engage in implementation of codes of conduct, moral principles and reasoning for different branches of ethics (Rezaee, 2008). Business ethics is sub-specialization of the applied ethics.

2.1. Business Ethics

Previously, as Milton Friedman also said it's considered that 'The business of the business is to do business.' But the world was shaken with unethical behaviors of senior managers in many emerging economies and American, European companies at the start of 2000s and especially at the end of 2008. The best examples of when company executives exhibited unethical behaviors they caused incredible collapse of even successful companies, are some of the Fortune 500 companies such as Enron, Tyco, Waste Management, WorldCom and Adelphia Communications. As a result of the mentioned famous company failures with gaining importance ethical issues in the businesses, the slogan has been changed as 'the business of business is ethical business' (Fernando, 2013).

The response of USA to these company failures chain was quick and the Sarbanes-Oxley Act which is called briefly SOX or Sarbox and is also known Public Company Accounting Reform and Investor Protection Act, is signed by president of the republic George W. Bush at 30 July 2002. The law was a response to Enron, WorldCom, Tyco and other huge frauds and failure series between 2001 and 2002 and after stock market crash laws which are created by Securities and Exchange Commission after 1929, were the most important part of federal laws which govern public institutions (Monks and Minow, 2011). The main objective of the SOX is to ensure that the information released by companies listed on the stock exchange in the USA is correct (Hopkin, 2010). Basic provisions of the SOX require the following: (1) public institutions apply common policies, procedures and tools in order to prevent fraudster activities, (2) financial control and risk mitigation processes must be documented and must be verified by independent auditors, (3) Managers of public companies document validity of financial statements belong to the companies and (4) business records must be kept for at least 5 years (Smallwood and Williams, 2013).

Mentioned unethical behaviors in companies and as a result of these taken legal measures revealed how important concept of ethics in enterprises. Business ethics can be defined as total of a set of principles or moral conduct series that a company must apply in relationships with its

stakeholders at the management of the company (Fernando, 2013). Cowton and Crisp (1998) defines the concept so; “Business ethics is that set of principles or reasons which should govern the conduct of business whether at the individual or collective level.” Business ethics contains different research interests such as health concerns, labour practices, environmental concerns, free and fair trade, genetic modification, euthanasia to animal welfare, human cloning (Fernando, 2012). Business ethics is classified in four different levels which are called the society level, the industry level, the company level and the individual manager level in regard to company type and how their activities are assessed. Triangle of business ethics consists of ethics sensitivity, ethics incentives, and ethical behavior as showed in Figure 2 (Rezaee, 2008);

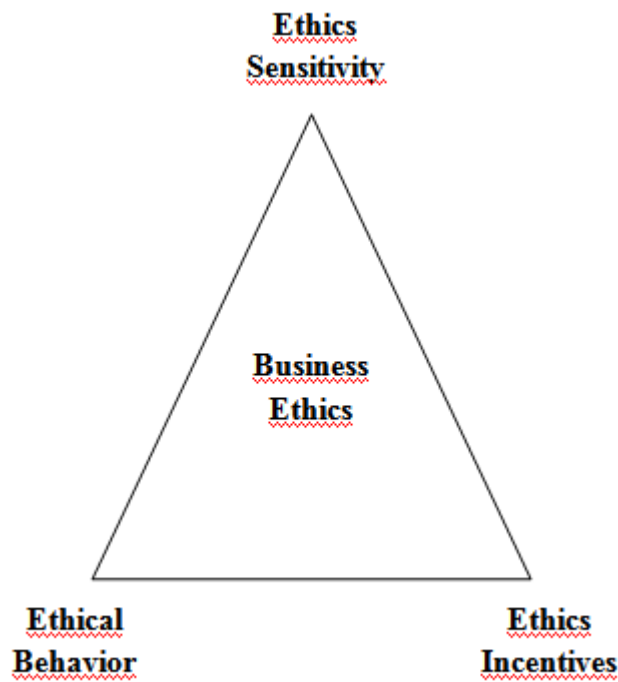


Figure 2. Triangle of Business Ethics (Rezaee, 2007)

Ethics sensitivity is identified via determinants whose origin is the organization's ethical culture and affect a person's ethical judgments such as workplace factors, gamesmanship, moral principles, loyalty, job security and peer pressure. Ethics incentives contain punishments, requirements and rewards which promote unethical or ethical behavior. The sources of ethics incentives are classified in 5 groups; individual-based incentives, organization-based incentives, market-based incentives, profession-based incentives, and regulatory-based incentives. Ethical behavior means that company management should show they support ethical behavior via their actions and policies (Rezaee, 2008).

Although behaving in an unethical manner is seen to provide short-term gain for businesses, ethical behavior be for the benefit of businesses in the long-term. Exhibiting ethical behaviors of businesses provide environment of confidence in relations with stakeholders; managers, employees and shareholders are proud to work in such a business and this generates goodwill and loyalty to the company, a strong business image build in medium and long-term, protect the existence of the company in the long run and make its profitability sustainable (Saleem, 2010). When it's taken into account that positive effect of ethical business behaviors on performance, ethics in businesses has now become an important performance measure.

Business ethics has been taken as a performance indicator under economic dimension of the Triple Bottom Line. Because of the method is explained in detail at the next section, there is no need to repeat. In the social accounting method as part of corporate social responsibility, relationships with industry and rights of employees are taken into consideration. But the measurement of ethics is difficult, because of this it's possible that the concept hasn't been taken into consideration in enterprise performance evaluation methods.

3. Environment

Due to increasing of the world population each passing day, the number of enterprises to meet the needs of this growing population increase day by day. Businesses use the earth's limited sources while they producing goods and services which meet the needs of consumers. With the beginning of the industrial revolution at 18th century the earth and the atmosphere has been seriously damaged because of business activities (Collins, 2011). Release of billions of pounds of toxic substances into the water, soil and air happened every year after industrial revolution (McDonough and Braungart, 2010). The ways which businesses use to convert raw materials into products or services, increase air, water and soil pollution (Collins, 2011).

Enterprises started to become self-aware about environmental problems in the 1970s with acceptance of the Earth Day and this tendency continued in the 1980s with the accidentally release of 15000 gallons of fatal chemical substances from a plant in India. When we came to the 1990s, this era is symbolised with "eco-efficiency" and the 2000s is the era of sustainable management (Nattrass and Altomare, 2013). As well as mentioned nascent awareness about the environmental problems national and international governmental and voluntary environmental organizations has been established, government regulations has been made and international agreements have been signed. Environmental laws such as Clean Air Act (1970), Environmental Protection Agency (1970), National Environmental Policy Act (1970), Clean Water Act (1972) and Endangered Species Act (1973) which is enacted in the period of Richard Milhous Nixon's presidency, can cite to government regulations and Kyoto Protocol which is signed for fighting against global warming and climate change at 1997 and Montreal Protocol which is signed about ozone-depleting substances at 1987, can cite to international agreements (Collins, 2011).

It's understood by managers that effective management of the relationship between the environment and organizational activities can increase profits, long-term success and leave more livable environment for current and future generations (Mattioli, 2007). Selecting the right indicators for measuring environmental performance is important due to pressures of public, market and regulations; international standards and voluntary initiatives; and increased costs related to environmental operations (Global Environmental Management Initiative, 1997). There's still no clear agreement on the issue how environmental performance can be defined and measured. But according to some researchers corporate environmental report is the key tool for evaluating environmental performance of the enterprises (Jones et al., 1999).

Measuring environmental performance has many difficulties because issues related to the environment are complicated and quantification of them is usually difficult, finding necessary environmental data is difficult and quality of it usually isn't good, because the enterprises engage in varied economic activities, comparing the environmental impacts of them is questionable, there is no agreed upon standart method for environmental measurement and reporting, there is no completely accepted method for weighting varied environmental impacts (<http://www.environmentalperformance.org/approach/index.php>).

The concept of Triple Bottom Line (TBL or 3BL) which emphasizes importance of examining effects of business decisions on three key areas such as environment, economy and society, came from the area of sustainability and is derived by British business consultant John Elkington and his company SustainAbility in 1994 (Polaine et al., 2013; Parsons, 2008). It's a useful measurement framework for both providing design guidelines and assessing the results. The basic concept of the method is that an organization should be measured not only in terms of financial performance but also ecological and social outcomes generated by it (Polaine et al., 2013). The idea of the method is that a company isn't simply accountable to its shareholders but also to its stakeholders whom lifes are affected by the company's activities (Shipside, 2009). The method is particularly useful while working with public institutions whose ultimate aim is to improve the community but is also increasingly useful in the private sector (Polaine et al., 2013). The method is also known as people, planet, profit (Three Ps) (Shipside, 2009). As shown in Figure 3, these three elements (people, planet, profit) are inevitably intertwined and they benefit us about reminding that the company should consider the wider impact of its activities for becoming completely sustainable if it wants to remain vibrant and profitable (Christopher, 2010).

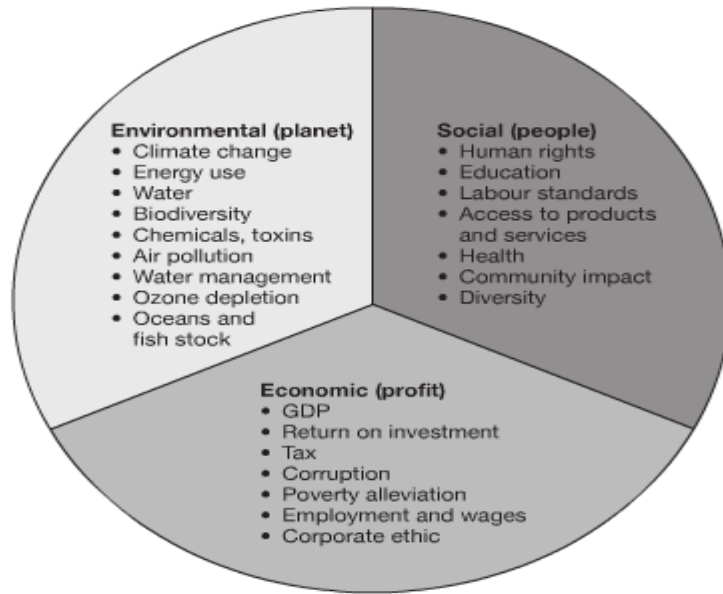


Figure 3. The triple bottom line: planet, people, profit (Christopher, 2010)

Because the method states that an organization's responsibilities are much more than economic responsibilities, it's a disturbing concept for many organizations. Measurement of performance with measures of the method isn't a simple task. Social performance and environmental performance is almost certainly unique in every organization or at least in every industry and measurement of them is often very difficult (Hubbard, 2009).

In the social accounting method, pollution control and energy conservation is addressed for environment. Environmental issues are taken into consideration under social issues in Maskell model. One of the EFQM criteria is society results and Prêmio Nacional da Qualidade business excellence model has society measure. The Action-Profit Linkage model has community relations criterion under external company actions. Corporate social responsibility under social perspective is addressed in Holistic Scorecard method.

4. Conclusions

A company's responsibilities are much more than economic responsibilities and these responsibilities are related to its stakeholders. In this context environment is one of the most important stakeholders of a company and additionally the companies are responsible ethically towards its all stakeholders. Because of this, environment and business ethics have become important performance indicators in the enterprise performance evaluation. In this study position of these dimensions in the enterprise performance evaluation is examined by emphasizing methods.

References

- [1] Carroll AB. A three-dimensional conceptual model of corporate performance. *Academy of Management Review* 1979; 4(4): 497-505.
- [2] Carroll AB. The pyramid of corporate social responsibility: toward the moral management of organizational stakeholders. *Business Horizons* 1991; 34(4): 39-48.
- [3] Christopher M. *Logistics and supply chain management*. Financial Times/ Prentice Hall; 2010.
- [4] Collins D. *Business ethics*. John Wiley & Sons; 2011.
- [5] Cowton C, Crisp R. *Business ethics: perspective on the practice theory*. Oxford University Press; 1998.
- [6] Fernando AC. *Business ethics*. Pearson India; 2009.
- [7] Fernando AC. *Business ethics and corporate governance*. 2nd ed. Pearson India; 2012.
- [8] Fernando AC. *Business ethics*. 2nd ed. Pearson India; 2013.
- [9] Friedman M. *Capitalism and freedom*, University of Chicago Press; 1962.
- [10] Global Environmental Management Initiative. *Measuring environmental performance: a primer and survey of metrics in use*. Washington, DC: Global Environmental Management Initiative; 1997.
- [11] Hopkin P. *Fundamentals of risk management*. Kogan Page; 2010.
- [12] Hubbard G. Measuring organizational performance: beyond the triple bottom line. *Business Strategy and the Environment* 2009; 18: 177-191.
- [13] Jones K, Alabaster T, Hetherington K. Internet-based environmental reporting: current trends. *Greener Management International* 1999; 26: 69–90.
- [14] Mattioli D. How going green draws talent, cuts costs. *The Wall Street Journal* 2007.
- [15] McDonough W, Braungart M. *Cradle to cradle: remaking the way we make things*. Macmillan; 2010.

- [16] Monks RAG, Minow N. Corporate governance. John Wiley & Sons; 2011
- [17] Nattress B, Altomare M. The natural step for business: wealth, ecology & the evolutionary Corporation. New Society Publishers; 2013.
- [18] Odenwald T, Berg C. A new perspective on enterprise resource management. MITSloan Management Review 2014.
- [19] Panza C, Potthast A. Ethics for dummies. NJ: Wiley Publishing; 2010.
- [20] Parsons P. Ethics in public relations. Kogan Page; 2008.
- [21] Polaine A, Løvlie L, Reason B. Service design. Rosenfeld Media; 2013.
- [22] Raiborn CA, Payne D. Corporate codes of conduct: a collective conscience and continuum. Journal of Business Ethics 1990; 9: 879-889.
- [23] Rezaee Z. Corporate governance post-sarbanes-oxley act: regulations, requirements, & integrated processes. John Wiley&Sons; 2007.
- [24] Rezaee Z. Corporate governance and ethics. John Wiley & Sons; 2008.
- [25] Shipside S. Karl marx's das kapital, Infinite Ideas; 2009.
- [26] Saleem S. Business environment. 2nd ed. Pearson India; 2010
- [27] Simpson J, Taylor J. Corporate governance ethics and csr. Kogan Page; 2013.
- [28] Smallwood RF, Williams RF. Managing electronic records: methods, best practices, and technologies. John Wiley & Sons; 2013.
- [29] Smith C. Ethical behaviour in the e-classroom. Chandos Publishing; 2012.

Web references

<http://www.environmentalperformance.org/approach/index.php>, 14.06.2016

<http://www.oxforddictionaries.com/>, 11.06.2016