ANALYSIS OF ETHICAL AND SUSTAINABLE DEVELOPMENT PRACTICES IN SELECTED MANUFACTURING FIRMS AND NIGERIAN BANKS

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Abstract

The study examined the impact of ethical and sustainable development practices on organisation performance. Survey research design was used in the study. Data for this research was obtained from Primary sources through the aid of a structured questionnaire. Krejche and Morgan formula were used to estimate the sample size. 384 copies of questionnaires were administered to employees of the selected companies out of which only 305 copies were found to be useful for data analysis. The data were analyzed using descriptive statistics and inferential statistics of partial least square structural equation model (PLS-SEM). The hypothesis was tested at 0.05 alpha levels. Findings revealed that economic responsibility and sustainability is the variable that best predicts the organisation performance with the following values (β =.317, t= 4.720, p=0.000). The next vital predictor in order of importance is social responsibility and sustainability predicts the organisation performance with the following values (β =.178, t= 4.304, p=0.002). Also ethical practices predicts the organisation performance with the following values (β = .317, t= 4.269, p= .000) and finally, environmental responsibility and sustainability (β = .177, t= 3.177, p= .001) is significantly related to organisation performance. Based on the findings, the study concluded that given that the quintessence of sustainable development which arises from concern for the unethical consequences of corporation's actions as they affect the interest of other stakeholders, the importance of ethical and sustainable development practices cannot be overemphasized. The study recommends that organizations', regardless of the sector or industry should ensure that their developmental objectives are in consonance with the triple bottom line objectives of profit, people and planet.

Keywords: Ethics, Sustainability, Development, Organisation, Performance

Introduction

The growth of business organization relies on the sound ethical codes of conduct set to guide both management and employee in its daily activities. The importance of business ethics in modern day business organization have been brought to light by corporate fraud and other unethical issue that span the corporate world. These have led many regulatory authorities to stipulate rules, law and standard which businesses must adhere to in their day-to-day governance (Ponemon & Michaelson, 2000; Stevens, Steensma, Harrison & Cochran, 2005). Societal ethics provide the bases on which a civilized state exists. Without ethics therefore, civilization collapses. The same is true of business ethics to the business organization. It provides the footprint on which organizational culture and structure is founded (Dombin, 2012). Globally and Nigeria with no exception, Unethical behaviors such as employment practice and violation of human rights, lack of environmental responsibility, inside trading and questionable accountants among others have resulted in corporate scandals around the globe. As a result of these corporate scandals and the lack of trust that they have brought, sustainable development has become an important issue for companies to address.

The erosion of trust has put pressure on corporations to improve their sustainable development policies and practices. Time, focus and money are not only put on increasing the economical dimension of one's business, but also on other dimensions. In particular social and environmental issues have been pushed into the limelight. Corporations are now looking into their "triple bottom line", trying to make a sustainable change. Transparency and accountability are today two important elements which have made it difficult for corporations to escape scrutiny. It is no longer a question about whether or not to act responsibly or ethically, but rather how **(**Karl and Besrat, 2012)**.** Davis (1967) argues that the substance of social responsibility arises from concern for the ethical consequences of one's action as they may affect the interest of others. In the same vein, Epstein (1987) posited that the normative correctness of the products of corporate action has been the main focus of corporate social responsibility. The banking sector in Nigeria for example has witnessed several cases of collapses, some of which include the Alpha Merchant Bank Ltd, Savannah Bank Plc, Societe Generale Bank Ltd (Akpan, 2007).

The issue of ethics which gives rise to corporate governance has been given the front burner status by all sectors of the economy. For instance, the Securities and Exchange Commission (SEC) set up the Peterside Committee on corporate governance in public companies. Park and Lee (2009) and Young and Thyil (2009) opined that there has been a significant increase in interest in Corporate Social Responsibility (CSR) and sustainable development in recent years and it is now regarded to be at its most prevalent representing an important topic for research (Burton and Goldsby, 2009). Evans and Davis (2008) stated that the above corporate scandals which attracted public attention highlighted once more the importance of CSR and sustainable development. Sustainable development is constantly evolving and incorporates different approaches depending on circumstances and need.

The current impetus for CSR and engagement and sustainable development practices suggests that the concept has moved beyond the initial stage of conceptualisation, theory building and testing, to justification and instrumentation, and acceptance. However, the current wave of scandals among corporations has again re-awakened the keen interest of academics on what the concept actually means to corporations, and the need to examine its perceived role. At an earlier point in history, social expectations from business organization did not go beyond efficient resource allocation and its maximization. Today, it has changed as modern business organization must think beyond profit maximization towards being at least socially responsible to the society. This is so because the interrelationship between organization and their environment has become increasingly important as there is no business that can exist in vacuum. It must have a community it associates with in terms of settlement for its successful operation.

Business organizations are now under increasing pressure to behave in socially responsible ways, to help to solve problems, to protect the environment by producing and providing environmental friendly products or services, support charities, exhibit ethical behavior and moral management. In the last few years, there has been increased awareness of corporate organizations about economic, social and environment expectation to the stakeholders. Proponents of sustainable development have argued that business should be held accountable not only for their economic responsibilities to shareholders, but also for the non-economic consequences of their activities on the society and the natural environments. Thus, organizations are now being called upon to take responsibility for the ways their operations impact societies and the natural environment. They are also being asked to demonstrate the social and environmental concerns in business operations in their interaction with stakeholders. Sustainable development is therefore an integral component of the firm's operations where the firm voluntarily contributes to the environment in terms of financial, environmental, moral, and social investment. Firm is responsible for the actions which affect consumption, society, and environment. Companies all around, in the world are contending with an aim to meet the needs of the today's generation without compromising the ability of the next generations to meet the same. Organizations have developed a variety of methods for dealing with this contention of needs of society, the environment, and corresponding business essentials with respect to how deeply and how well they are integrating social responsibility approaches into both strategy and daily operations worldwide

Statements of the Research Problem

The activities of banks and manufacturing firms have come with immense socio-economic benefits as a result of positive externalities associated with their operations. This is not to say it didn't come with other demerits as well, such as health and safety issues related to base stations and radio frequency, emissions, noise, air and ground pollution as a result of some of their plant and machineries which pose certain risk to the environment. Such equipment include satellite masts which cause severe health hazards due to the cancerous effects of radio frequency radiations (RFR), noise cum vibrations and carbon monoxide (fume) emissions from energy generating plants. The latter may results in human unconsciousness, tissue damage and in some cases death. Stakeholders expect the company to manage the economic, social, and environmental impacts of their operations by including public interests into corporate decision making and honoring of a triple bottom line of people, planet and profit. This implies that its CSR policy must entail self-regulation, adherence to rules and regulations, ethical standards, environmental responsibility and sustainability, consumer's satisfaction, employee welfare, communities and stakeholder benefits.

Furthermore, un-ethical business practice is no longer fashionable in a country as poverty driven as Nigeria as it can only attract negative feedback to any organization due to the increased media attention, increased stakeholder awareness, responsive and investigative journalism. Mirfazli (2008) posits that failure to carry out social responsibilities will cause more harm to a business than good because social and ethical responsibilities do attract and retain the best workers in any organization. Consumer also prefers to patronize organizations that are alive to sustainable development practices because the corporate behaviour has no hiding place with the advent of knowledge economy (Diffey, 2007). Organization must come to the aid of the people by addressing their socio-economic needs in areas where government has failed. Arising from the above, the objective of this study is to investigate the impact of ethical and sustainable development practices on organisation performance of selected Nigerian banks and Manufacturing firms.

Literature Review

a. **Ethical Practices:**

Ethics are code of values and principles that governs the action of a person, or a group of people regarding what is right versus what is wrong (Levine, 2011). Business ethics is the behaviour that a business adheres to in its daily dealings with the world. They apply not only to how the business interacts with the world at large, but also to their dealings with customers (Dombin, 2012). Creyer and Ross (1997) asserts that ethical responsibility embraces those standard and expectations that reflect a concern for what consumers, employees, shareholders, and the community regard as fair, just, or in keeping with the respect or protection of stakeholders moral rights. Ethical responsibility also recognizes that corporate integrity, good corporate citizenship should go beyond the requirement of laws and regulations. If corporation does something that is appropriate economically and legally, it must also be appropriate ethically (Carroll 1991). Thus, it entails doing what is right, fair and just. It involves how the society expects the corporations to embrace value and norms even if the valve and norms might constitute a higher standard of performance than required by law. Samson and Daft (2003) opine that ethics deals with internal values that are part of corporate culture and shapes decisions concerning social responsibility with respect to the external environment

b. **Sustainability and Sustainable Development**

The concept of sustainability is generally regarded as having emerged from the environmental perspective is about how to manage physical resources so that they are conserved for the future. Thus economic sustainability is about the economic performance of the organization itself. A broader concept of economic sustainability includes the company's impact on the economic framework in which it is embedded. The sustainability viewpoint as used in this context draw on the triple bottom line framework by John Elkington in 1997 which states that businesses should not only consider the economic interests, but has to consider integration of the societal issues such as the environment and social welfare if they are to survive in the long-term. The triple bottom line is considering that companies do only have one objective, profitability, but that they also have objectives of adding environmental and social value to the society (Crane and Matten, 2004).

Marrewijk and Werre (2003) refer to company activities involving economic, social and environmental concerns in business operations. These three elements are often referred to as triple bottom line (Zadek, 2001). SD is generally understood as the "process of achieving human development in an inclusive, connected, equitable, prudent, and secure manner (Galdwin, Krause, & Kennelly, 1995) in order to "meet the needs of the present without compromising the ability of future generations to meet their own needs" (WCED, 1987). Sustainability was defined by Hurst (2004) as simply aligning an organization's products and services with stakeholder expectations, thereby adding economic, environmental and social value. The Institute of Directors Southern Africa (2009) added that sustainability is the primary moral and economic imperative of the 21st century. It is one of the most important sources of both opportunities and risks for businesses since nature, society, and business are interconnected in complex ways that should be understood by decision-makers. SD is generally understood as the "process of achieving human development in an inclusive, connected, equitable, prudent, and secure manner" (Galdwin *et al.,* 1995), in order to "meet the needs of the present without compromising the ability of future generations to meet their own needs" (WCED, 1987).

Sustainable Development is an idea of using our resources towards our continued progress in a way that will not impede upon the basic needs of those who are yet to come, a concept of putting people first by placing the necessary value on the environment. Galdwin et al (1995) reviewed several definitions of Sustainable Development and performed a content analysis, concluding that various definitions have fundamentally stressed the notion of human development in association with principles of inclusiveness, connectivity, equity, prudence and security. Inclusiveness implies human development over time and space. Connectivity entails an embrace of ecological, social, and economic interdependence. Equity suggests intergenerational, intra-generational, and interspecies fairness. Prudence connotes duties of care and prevention: technologically, scientifically, and politically. Security demands safety from chronic threats and protection from harmful disruption**.** Sustainable Development otherwise referred to as Triple Bottom Line model since it focuses on three major areas in development; social, environmental and economic (People, Planet and Profit). These three elements of constitute the components of CSR and is discussed as follows:-

i. **Economic sustainability:** This element pertains to the sustainability of economic growth and profitability. It requires firms to manage all types of assets in such a way so as to ensure business continuity. A company's operation mainly relies on fixed assets (such as buildings, land, equipment, machinery) and current capital (for instance bank accounts, merchandise, accounts receivable) to run the business. Recently, intangible assets/capital (for example knowledge, business know-how, reputation, trust) has become increasingly significant, and is no less important than their tangible counterparts. Zadek (2004) stated that the economic element is related to the created of material wealth, including financial income and assets for the company
ii. **Environmental sustainability:** A firm's production process requires resources. These may be natural resources, which can either be renewable (such as wood, fish, and rice) or non-renewable (such as fossil fuels, biodiversity, and quality soil). These natural resources can also take the form of ecosystems, for instance climate stabilization, water, purification, and/or reproduction of plants and animals. Economic value is derived from the consumption and utilization of national resources and the maintenance of ecosystems. If the natural resources are completely consumed, business will eventually become unsustainable. Thus, it is principally concerned with how the natural environment can be protected and conserved (Zadek, 2004). Hence, ecologically sustainable companies use only natural resources that are consumed at a rate below the natural reproduction, or at a rate below the development of substitutes.
iii. **Social sustainability:** A company's operation not only depends on financial and natural resources but also on social resources, namely human capital and social capital. Human capital is primarily concerned with aspects like skills, motivation and loyalty of employees and business partners. Thus, the social element is connected to the organizations impact on society, including employees, customers, and community and business partners. It places emphasis on the quality of people's life and socially equitable development (Zadek, 2004). Socially sustainable companies add value to the communities within which they operate by increasing the human capital of individual partners as well as furthering the social capital of these communities.

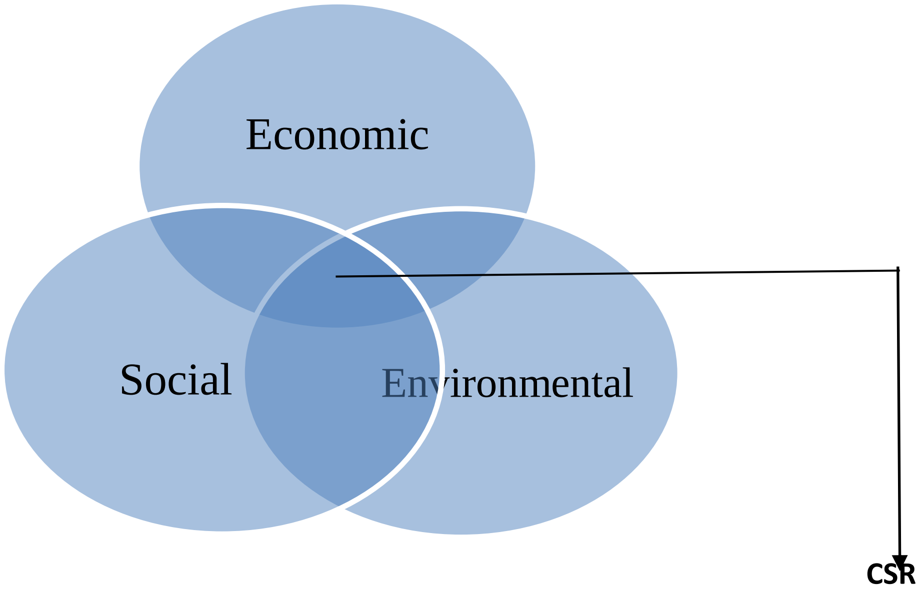

Figure 1: Three Domain Model of CSR/Sustainable Development

Source: Adapted from Glazebrook, M (2001). How Australian companies are becoming corporate citizens. In Andriof, J & McIntosh, M. (Eds.), Perspectives on Corporate citizenship, Sheffied, UK: Greenleaf Publishing Ltd. p.164

c. **Theoretical Framework: Legitimacy Theory**

Legitimacy is defined as “a generalised perception or assumption that the actions of an entity are desirable, proper, or appropriate within some socially constructed systems of norms, values, beliefs and definitions” (Suchman, 1995). Legitimacy theory also supports the implementation of CSR activities as it focuses on how businesses respond to various expectations and pressures in order to survive. According to the theory, organizations look for a balance between their actions and how they are perceived by outsiders and what is thought by society to be appropriate (Suchman, 1995; Deegan, 2002). Aguilera, Rupp, Williams, & Ganapathi (2007) see legitimacy as a relative motive as it refers to a concern for how the firm’s actions are perceived by others. Firms within a given industry are confined by the specific norms, values, and beliefs of that industry, some of which are enacted into law.

Society's perceptions of the organizations are crucial and may affect their survival if they have breached their 'social contract'. Firms have a rational motive to engage in the CSR practices of their industry and thereby come to be regarded as legitimate through their compliance with industry norms and regulations, and an instrumental motive to pre-empt bad publicity, institutional investor disinvestment, and penalties arising from non-compliance with applicable legislation In the event that society is not satisfied that a firm is operating in an acceptable or legitimate manner, then society will effectively revoke its 'contract' to continue operations (Davies, 1997).

Methodology

The study population constitutes all the firms in both Nigerian banking and manufacturing industry. For the banking sector, the study population was banks categorized as Tier 1 (Zenith Bank Plc, UBA Plc, GTBank Plc, FBN Plc, and Access Bank Plc) and adjudged to be controlling 60 percent of banking sectors assets in Nigeria (Akanbi 2014). The firms in the manufacturing industry were selected from the Food and Beverage Group. The firms are Cadbury Nigeria Plc, Flour Mills Nigeria Plc, Nestle Nigeria Plc, UACN Nigeria Plc, and Unilever Nigeria Plc. All ten firms were selected using purposive sampling having constantly and continuously disclosed their CSR activities explicitly in the last ten years. This survey research was mainly based on primary data collected from employees of selected firms. Primary data were used in this study. A sample was drawn from the population, hence; a sample size of three hundred and sixty (384) respondents constitutes the sample size for questionnaires that were administered to the staff respondents which was arrived at using Krejcie and Morgan's (1970) sample size determination criteria.

Out of the 384 copies of the questionnaire given out, 305 copies of questionnaire were filled appropriately and useful for analysis. Data collected from the questionnaire were analyzed with the aid of a Structural Equation Model (SEM) because it is a tool which allows treatment of data analysis with multivariate relationships involving one or more independent variables against one or more dependent variables (Smith, 2004; Hair, Hult, Ringle, & Sarstedt, 2012). The hypotheses were tested at 5% level of significance.

Results and Discussion of Findings

Test of Hypothesis

Main Hypothesis

Ho: - Ethical and sustainable development practices does not have any significant impact on performance of selected firms in food and beverage manufacturing sector

Sub Hypotheses

H1a: Ethical Practices does not have any impact on organisation performance

H1b: Economic responsibility and sustainability does not have any impact on organisation performance

H1c: Social responsibility and sustainability does not have any impact on organisation performance

H1d: Environmental responsibility and sustainability does not have any impact on organisation performance

Table 1 Result of Hypotheses Testing

Hyp.	Relationship	Beta	S.Error	T - value	P -value
H_{1a}	Ethical -> Performance	0.310	0.073	4.269	0.000
H_{1b}	Economic->Performance	0.317	0.067	4.720	0.000
H_{1c}	Social -> Performance	0.178	0.059	3.047	0.002
H_{1d}	Environment-> Performance	0.177	0.056	3.177	0.001

Information on Table 1 revealed that hypothesis 1a predicted that ethical practices are related to organisation performance. Hence, the table above revealed a significant positive relationship between ethical practices and organisation performance ($\beta = 0.310$, $t = 4.269$, $p = 0.000$), supporting Hypothesis 1a. Similarly, Hypothesis 1b predicted that economic responsibility and sustainability is related to organisation performance. Result on Table 1 revealed a significant positive relationship between economic responsibility and sustainability and organisation performance ($\beta = 0.317$, $t = 4.720$, $p = 0.000$), therefore, the Hypothesis 1b is supported. Also, in examining the influence of social responsibility and sustainability on organisation performance, result indicated that social responsibility and had a significant relationship with organisation performance ($\beta = 0.178$, $t = 3.047$, $p = 0.002$), supporting Hypothesis 1c. Lastly, in examining the effect of environmental responsibility and sustainability on organisation performance, result indicated that environmental responsibility and had a significant relationship with organisation performance ($\beta = 0.177$, $t = 3.177$, $p = 0.001$), supporting Hypothesis 1d. The findings of this study is consistently in line with the previous findings of Obalola (2010) who opined that ethics and social responsibility significantly impacts organisational effectiveness.

Conclusion and Recommendations

The 21st century business is pushing the limits of the traditional business thought. Sustainable development practices, that stems from internal values or social and environmental pressures, is becoming the norm. Given that the quintessence of sustainable development arises from concern for the ethical consequences of corporation's actions as they may affect the interest of others. The question is not whether to be responsible; but how to reap the best long-term benefits from CSR. The often heard advice is through ethical values and behaviour, as well as strategic approach to business regardless of the sector or nature of business. When such values and practises are present within the company, they help create the culture of social responsibility. As the business world becomes increasingly global, demands are increasing for companies to become more transparent in their practises. With this additional transparency, companies must begin to consider the impact of their operations on society as a whole. Given the already intense pressure brought by stakeholders globally on the utilisation of resources in line with the principles of sustainable development that underpins the concept of CSR. There is need for the enshrinement of the CSR philosophy in all organisations in order to achieve a sustainable development that the 21st century demands**.** Organisations, regardless of the sector or industry should ensure that their developmental objectives are in consonance with the triple bottom line.

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