Ethical Principles in Business Decision Making: Implications for Corporate Sustainability and Relationships with External Stakeholders

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A B S T R A C T

This research aims to explore the application of ethical principles in business decision making and its impact on corporate sustainability and relationships with external stakeholders. In this increasingly complex and connected business environment, the application of ethical principles is considered important to maintain the corporate reputation, create long-term relationships with business partners, and ensure positive social impact. This research uses a literature study approach to analyze various existing theories and findings regarding the role of ethics in business decision making. The results show that corporates that consistently integrate ethical principles in decision making tend to have better sustainability and stronger relationships with external stakeholders, such as customers, business partners and societies. Balancing financial goals and social responsibility comes with challenges, which often become a dilemma for business leaders. Suggestions include the importance of continuous training on business ethics, measurement of the impact of ethics on performance, and clear policies to ensure ethical principles are applied in every business decision. This research makes an important contribution to understanding the relationship between ethics, decision making and corporate sustainability in an increasingly complex business world.

INTRODUCTION

The increasingly competitive business world means that good decision making is critical to a corporate survival and success. In an era of globalization and ever-changing market demands, business decision making is often guided not only by economic or profit considerations, but also by ethical principles. The application of ethics in business decision making reflects a corporate's moral values, and plays an important role in creating a good reputation and building long-term trust with stakeholders such as customers, employees, and society (Carroll & Buchholtz, 2014). Business ethics refers to a set of values and norms that guide a corporate behavior in making decisions that affect many parties.

The application of ethical principles in business decision making can specifically be seen in several important aspects, including Corporate Social Responsibility (CSR), environmental management, protection of human rights, and fairness in business relationships. Corporates are expected to focus on financial returns, and on the social and environmental impacts of the decisions they make. The application of ethics in business decision making can reduce the risk of conflicts of interest, increase transparency, and mitigate potential negative impacts on corporate reputation (Schwartz, 2017). For example, many corporates are beginning to focus on sustainability, integrating environmental considerations into their business strategies as part of an ethical commitment to the planet.

The particular phenomenon that is developing today shows that corporate that ignore ethics in business decision making often face major challenges in terms of reputation and sustainability. Cases of major corporations involved in ethical scandals, such as data manipulation or human rights violations, demonstrate that weak ethical practices can harm consumer trust and incur long-term losses. Corporates that integrate ethics into every aspect of their operations are more likely to survive competition and maintain positive relationships with stakeholders. Applying ethical principles in business decisions is crucial for corporate integrity and long-term sustainability in an ethically conscious global market.

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One of the main problems faced by many corporates in applying ethical principles in business decision making is the mismatch between economic goals and social responsibility. Corporates are often caught up in the pressure to achieve quick profits, which can lead to unethical or unsustainable decisions. For example, in many cases, decision making that focuses solely on achieving short-term financial goals ignores broader social and environmental impacts. This leads to violations of ethical principles that ultimately harm the corporate's image in the long-term (Crane & Matten, 2016). Corporate with a primary focus on financial returns, corporates often overlook the importance of building fair and transparent relationships with their stakeholders.

Not only that, a major problem in the implementation of ethical principles is the lack of understanding of business ethics among corporate leaders and decision makers. Many corporates already have a written ethics policy, but the implementation of ethical principles is often hindered by a lack of awareness or commitment at the managerial level (Klettner et al., 2014). Corporate leaders who do not fully understand and explore the importance of ethics in decision making may make decisions that are not in line with the moral values they claim to espouse. This can lead to inconsistencies in the application of ethics policies across the organization (Brown et al., 2005). These discrepancies lead to doubt and mistrust among employees and other stakeholders.

Another issue that arises is the challenge of measuring the impact of ethics on corporate sustainability. Often, the positive impact of applying ethical principles is not immediately apparent in financial figures, which can make it difficult for corporates to prove that ethical decisions have a positive influence on long-term performance. Many corporates face a dilemma between making ethical decisions that may not be immediately profitable or choosing decisions that are more profitable but go against ethical principles. This creates tension in organizations between those who prioritize short-term profits and those who prioritize sustainability and social responsibility (Epstein, 2008). This ignorance or doubt of the relationship between ethics and sustainability makes the application of ethical principles a significant challenge for many organizations.

The application of ethical principles in business decision making must be carefully observed due to its significant impact on the corporate reputation and sustainability. The era of globalization and fierce competition, consumers, investors and other stakeholders are increasingly prioritizing transparency and CSR. Corporates that ignore ethical principles in their risk of decision making damaging their image, which in turn can reduce customer trust and loyalty. Not only that, ethical scandals arising from unethical business decisions can cause huge financial losses, including a drop in share value and loss of market share. Given this, an understanding of the importance of ethics in business decision making is needed to maintain healthy relationships with stakeholders and ensure the long-term sustainability of the corporate (Carroll & Buchholtz, 2014).

Not only that, with the development of increasingly stringent regulations related to social and environmental responsibility, corporates must understand the urgency of applying ethical principles in every aspect of their operations. Many countries are now implementing laws that require corporates to report on the social and environmental impacts of their business activities. To deal with these regulatory pressures, corporates that integrate ethics into their decision making will find it easier to adapt and avoid potentially costly legal risks. The urgency to observe and evaluate the application of ethical principles in business decisions is becoming increasingly clear, as ignorance or negligence in this regard can hinder corporate growth and potentially lead to long-term losses (Schwartz, 2017).

The purpose of this research is to analyze the effect of applying ethical principles in business decision making on a corporate's sustainability and reputation in the market. The research also aims to explore how corporates can measure and assess the impact of applying ethical principles on long-term performance and customer satisfaction. In addition, this research will investigate the role of corporate leaders to ensure the consistent application of ethical principles in every business decision taken. Finally, the research aims to identify the impact of applying ethical principles in decision making on the corporate relationship with external stakeholders, such as business partners and society.

RESEARCH METHOD

This research uses a literature study approach to analyze the application of ethical principles in business decision making. Literature study is a research method that examines various existing written sources, including books, scientific articles, corporate reports, and journals, to understand the phenomenon under research. This approach helps researchers to identify relevant previous findings and build a strong theoretical basis. The literature study will be used to review various theories and research that address the application of ethical principles in business decision making, besides their impact on corporate sustainability and relationships with stakeholders (Hart, 1998).

This research will analyze business ethics concepts that have been widely discussed by experts, such as deontological ethics and utilitarianism, to see how these principles are implemented in business decision making corporates.

The literature study approach allows the researcher to distill and analyze the various perspectives that exist within the existing literature. Relevant literature will include works that address ethics in managerial decisions, and their impact on corporate performance and reputation. One of the main focuses of this research is how corporates can measure the impact of implementing ethical principles on customer satisfaction and long-term performance. Comparing various existing theories and case studies helps this research seek to provide a clear picture of how ethical decision making can influence better outcomes in business (Schwartz, 2017). In this case, the literature used will include works that discuss the importance of integrating ethics in business strategy and the challenges faced by corporates to concretely measure the impact of ethics.

This literature study method will also examine the role of leaders to implement ethical principles in organizations. There are several research found that ethical leadership strongly influences how ethical principles are applied in organizations and implemented in decision making (Brown et al., 2005). This research will review existing research on the role of leaders to motivate and lead organizations with high ethical standards. The literature used will include articles that discuss the importance of integrity in leadership and its impact on business decisions and corporate relationships with stakeholders. By using valid and easily accessible literature, this research is expected to provide a deeper insight into the application of ethical principles in business decision making.

RESULT AND DISCUSSION

The Effect of the Implementation of Ethical Principles on Sustainability and Corporate Reputation in the Market

The application of ethical principles in business decision making has a significant impact on a corporate sustainability and reputation. Ethics in business decisions are related to compliance with the law, and to how corporate acts with social responsibility towards stakeholders, including customers, employees and society. A corporate committed to making ethical business decisions can build trust and loyalty from consumers, which can further enhance the corporates reputation and provide a sustainable competitive advantage (Carroll, 2015). Ethical decisions often demonstrate a corporate commitment to values that society values, which has a positive impact on a corporate image and attractiveness in the market.

Corporates that integrate ethical principles into their business decisions are mindful of the short-term financial aspects, and consider the social and environmental impacts of those decisions. This approach reflects the understanding that business success is not only measured by profitability, but also by its contribution to the welfare of society and environmental sustainability. For example, corporates that make decisions that are environmentally friendly or that support social welfare are likely to be more valued by consumers who are increasingly aware of these issues. Decisions based on these ethical principles can strengthen a corporate relationship with customers who prefer to do business with responsible corporates. In the long-term, this contributes to the sustainability of the corporate as a good reputation brings more business opportunities and market development. This makes ethics an important foundation for the corporate's long-term sustainability and growth.

The application of ethical principles also risks reducing short-term profits, as corporates may have to sacrifice profit margins or make additional investments to ensure ethical decisions (Porter & Kramer, 2011). While such risks are unlikely, research shows that corporates that continuously make ethical decisions tend to earn better returns in the long-term, as they are better able to build strong relationships with stakeholders and avoid potential scandals or controversies that could damage their reputation. For example, corporates involved in ethical misconduct scandals, such as tax evasion or labor exploitation, often face reputational crises that can hurt share value and lower market attractiveness.

Unethical decisions can have a detrimental impact on the sustainability of the corporates. Scandals or adverse decisions can undermine public trust and reduce a corporate's attractiveness to investors (Fombrun, 1996). For example, corporates that engage in business practices that damage the environment or that are found to exploit workers often experience a decline in customer and investor trust, which can have a negative impact on their financial performance. The corporate also risks facing lawsuits, regulatory fines, and pressure from civil society organizations and international institutions, all of which can have a direct impact on long-term financial and operational performance. The application of good ethical principles can be an effective risk management strategy, which helps corporates to avoid reputational and legal risks.

Corporates that consider ethics in their decision making often gain an advantage in terms of brand differentiation. Brands that are recognized as having a strong commitment to ethical principles tend to attract loyal consumers, who value the CSR of the corporate. This also increases the corporate appeal to potential employees who want to work in a place that shares ethical values, as well as investors who prefer corporates that have a positive impact on society and the environment (Bhattacharya et al., 2009). Ethics in business decisions becomes a tool to achieve sustainability and strengthens a corporate's attractiveness in a competitive market.

Consistent application of ethical principles requires efforts from all levels of the organization, from top management to first-line employees. The efforts that can be made are that corporates must develop a corporate culture that prioritizes ethics, involves all members of the organization in the process of decision making, and creates a system that encourages transparency and accountability (Trevino & Nelson, 2021). This ethical corporate culture will strengthen long-term commitment to sustainability and corporate reputation, as ethics become an integral part of every decision made.

The application of ethical principles in overall business decision making greatly affects the sustainability and reputation of corporates in the market. Ethical decisions that focus on the balance between business objectives and social responsibility can provide a sustainable competitive advantage. In the long-term, corporates committed to applying ethical principles will strengthen relationships with stakeholders, and gain a reliable reputation, which contributes to their sustainability and success in the market.

Measuring the Impact of Ethical Principles on Long-Term Performance and Customer Satisfaction

Measuring and assessing the impact of implementing ethical principles on long-term performance and customer satisfaction is a complex challenge, but is critical for corporates committed to sustainability and social responsibility. One way to assess this impact is by using performance indicators that involve non-financial aspects, such as brand image and customer loyalty. Research by Morgan and Hunt (1994) shows that customers who perceive a connection between the corporate and its ethical values are more likely to remain loyal and interact with the corporate long-term. Given this, corporates should develop metrics that can capture customer perceptions of corporate ethics, such as satisfaction surveys that question the extent to which corporates are perceived to act ethically in the products or services they offer.

Not only that, corporates can also assess the impact of implementing ethical principles through sustainable financial performance. Ethical principles are often associated with short-term sacrifices in the form of additional costs, but research shows that corporates that are consistent in incorporating ethics into their business decisions can experience increased long-term returns (Eccles et al., 2014). For example, corporates that invest in business practices that are environmentally friendly or that support employee well-being tend to earn higher returns over time, as they are more trustworthy to consumers and more resilient to crises caused by ethical issues. Given this, corporates need to record and analyze indicators that reflect such long-term sustainability, including market growth rates and financial stability.

The impact of ethical principles on customer satisfaction can be assessed by measuring changes in customer relationships through surveys and interviews. Research by Kotler et al. (2015), says that customer satisfaction can be influenced by their trust in the corporate, which often stems from how the corporate handles ethical issues. Given this, corporates should regularly evaluate customers' ethical perceptions of them, as well as the extent to which the ethical principles applied contribute to positive perceptions of corporates values. Surveys that measure aspects such as "fairness," "transparency," and "social responsibility" can provide valuable insights into the relationship between ethics and customer satisfaction.

Another effective method to assess the impact of implementing ethical principles is to use external data and feedback from stakeholders, such as industry associations, social media, and third-party reports. According to Porter and Kramer (2006), feedback from these various sources provides a more complete picture of a corporate ethical reputation and how it can affect customer satisfaction. For example, corporates that are rewarded for sustainability efforts or that receive positive reviews regarding their fairness and transparency may see an increase in the number of new customers as well as the satisfaction of existing customers.

Corporates can also use measurement tools such as Return on Investment (ROI) analysis in relation to ethical initiatives. In fact, although it is difficult to directly measure the effect of ethical decisions on a corporates bottom line, corporates can conduct a cost-benefit analysis to see to what extent investments in ethical practices, such as employee welfare policies or environmental impact reduction, provide added value in the form of better customer loyalty and retention (Harjoto & Jo, 2011).

The results of this analysis can be used to assess the success of implementing ethical principles to improve the corporates long-term performance.

Corporates should pay attention to other metrics related to organizational culture and internal satisfaction, as employees who feel proud to work for a corporate committed to ethics tend to be more productive and more loyal. Research by Bartels et al. (2016) shows that corporates with a strong ethical culture often experience higher employee retention rates and better productivity, which ultimately contributes to long-term performance and customer satisfaction. Corporates can use employee satisfaction surveys and other indicators to assess the internal impact of ethical decisions on corporates external outcomes.

Overall, while measuring the impact of ethics in business is a challenge, corporates committed to the application of ethical principles can utilize various methods to assess such impact. Including non-financial indicators, using cost-benefit analysis, and listening to customer and employee feedback, allows corporates to effectively assess and monitor the impact of ethical principles on long-term performance and customer satisfaction.

The Role of Corporate Leaders to Apply Ethical Principles in Business Decision Making

Corporate leaders play a critical role in ensuring that ethical principles are consistently applied in day-to-day business decision making. Leaders as figures who lead and set examples, leaders have the responsibility to set clear ethical standards and demonstrate their commitment to these values. According to Brown et al. (2005), leaders who integrate ethics in their every decision can create a culture that supports ethical behavior throughout the organization. This shows that leaders are the final decision makers, and become role models who can influence the behavior of their subordinates through the examples and policies they implement.

Leaders are responsible for openly and effectively communicating ethical principles to all members of the organization. This communication is limited to written policies, and should be reflected in the daily interactions they have with employees, business partners and customers. For ethics to become part of the corporates DNA, leaders need to ensure that all parties understand the importance of ethical values in every aspect of business operations. Schwartz (2017) emphasizes the importance of open communication regarding ethics policies, as this helps create an understanding of how ethical values are applied in real actions in field.

Not only that, leaders must ensure that decisions taken by the corporate always consider the impact on stakeholders, in terms of financial benefits, and from a social and environmental perspective. Research by Maak (2007) shows that leaders who are successful in applying ethical principles in business are those who are able to balance corporate interests with broader social interests, such as society welfare and environmental sustainability. Leaders need to integrate ethical considerations in the corporates business strategy so that every decision made benefits the corporate and has a positive impact on the surrounding environment.

Leaders are also responsible for ensuring that corporate policies create an environment that supports ethical decision making. This includes providing the needed training and resources to enable employees to make ethical decisions in complex situations. Good ethics training, according to Kaptein (2011), can help employees to recognize ethical dilemmas they may face in their work and provide the needed tools to deal with them. With this in mind, leaders need to ensure that the organization has clear mechanisms in place to deal with ethical issues, including ongoing training and a code of conduct that is accessible to all relevant parties.

Beyond policies and training, leaders should encourage transparency and accountability in decision making. Leaders who demonstrate openness to decision making process and take responsibility for the resulting impact can strengthen the ethical culture within the organization. According to Trevino and Nelson (2021), transparency in decision making allows stakeholders to see how ethical principles are applied in practice and identify potential conflicts of interest that could undermine the integrity of the corporate. Accountable leaders will be more valued and trusted by employees and the public, further enhancing the corporates reputation.

The role of leaders to ensure the application of ethical principles also includes consistently sanctioning actions that violate the corporates ethical values. Leaders who enforce rules fairly and consistently send a strong message that unethical behavior will not be tolerated in the organization. This is important for creating a sense of fairness among employees and increasing compliance with ethical principles. According to Fischer et al. (2014), leaders who do not take ethical violations seriously risk creating a corporate culture that is permissive of unethical behavior, which can ultimately harm the corporates reputation and performance.

Finally, corporate leaders must ensure that they constantly evaluate and adjust ethics policies as the business and social environment changes. The dynamic business world requires leaders to stay relevant in order to apply ethical principles that match the new challenges that arise. Research by Aupperle et al. (1985) revealed that corporates that are able to adapt their ethical strategies to the times are more likely to survive in the long-term. Given this, leaders need to have the ability to evaluate and update the corporates ethics policy, as well as ensure that ethics remain the main focus in every decision making.

Impact of the Implementation of Ethical Principles on the Corporates Relationship with External Stakeholders

The application of ethical principles in business decision making has a significant impact on the corporate relationship with external stakeholders, including business partners and society. Consistent application of ethics in business decisions shapes a corporates reputation, and influences the level of trust and cooperation that can be established between the corporate and various external parties. Corporates that make transparent decisions based on ethical principles can enhance their credibility and create stronger relationships with business partners. Conversely, decisions that are perceived as unethical or detrimental to others can damage these relationships and even affect the continuity of future cooperation (Fombrun, 1996).

For business partners, the application of ethical principles in decision making demonstrates a commitment to fairness and social responsibility. Business partners tend to choose to collaborate with corporates that prioritize ethics because they feel more secure in their mutually beneficial relationships. This can create long-term opportunities, as ethical principles often relate to sustainability and social responsibility, which are increasingly becoming important factors in business partners' decision making (Carroll & Shabana, 2010). Conversely, corporates that ignore ethics and are more concerned with short-term profits may lose sustainability-oriented business partners.

The application of ethics in business decisions also plays an important role in building positive relationships with society. Corporates that operate ethically are often viewed more favorably by the public, which can strengthen consumer loyalty and expand their market share. According to Jones (1995), corporates that have an ethical reputation tend to gain greater support from society, as consumers increasingly pay attention to how corporates behave in terms of sustainability, social justice and transparency. These ethical decisions also reflect the corporates concern for social welfare, which can improve the corporates image in the eyes of the public.

One obvious example is how corporates can enhance their engagement with society through responsible social initiatives. CSR programs that are well-intentioned and ethically grounded can enhance a corporates relationship with society, and conversely, failure to engage ethically can damage that relationship. Research by Carroll (1999) show that corporates that successfully manage their relationships with society through ethical principles will see a positive impact on customer loyalty and their long-term reputation. In contrast, non-transparency and deception can cause reputational damage that is very difficult to repair.

Some cases of applying ethical principles in business decisions may pose challenges that corporates have to face in their relationships with external stakeholders. For example, some business partners may have different views on what is considered ethical or legitimate, which can lead to tensions or even the termination of relationships. In this case, corporates must be able to navigate these differences wisely and manage stakeholders' expectations to maintain healthy and productive relationships. Ethics in business often faces dilemmas when such principles collide with more pragmatic economic goals.

Another challenge is when corporates face pressure from stakeholders to make decisions that are more financially favorable but contrary to ethical principles. For example, decisions that ignore safety or environmental standards in favor of cost savings can damage relationships with societies, regulators and business partners. This happens, among others, in industrial sectors that have a direct impact on the environment, where unethical decisions can damage the corporates image in a short time (Freeman, 1984). Given this, corporates must uphold ethical principles to maintain stable and mutually beneficial long-term relationships with various parties.

One notable example is how corporates in the energy and manufacturing sectors face public pressure related to environmental issues. Corporates that fail to take ethical principles seriously in decisions related to natural resource use or waste management may experience boycotts or protests from the public, damaging their relationships with consumers and regulators (Porter & Kramer, 2006). In contrast, corporates that are proactive in dealing with these issues, as seen in some renewable energy-focused corporates, can improve their image and strengthen relationships with society and stakeholders.

The consistent application of ethical principles in business decision making also serves as a gauge for society to assess the extent to which corporates care about social justice and environmental sustainability. Corporates that build relationships with society based on ethical principles focus on short-term profits, and on the social and environmental impacts of their operations. This is in line with the view that ethical business can create long-term value for all stakeholders, including society (Smith, 2003). The corporate ethical decisions thus have major implications for how society assesses the long-term sustainability of the corporate.

Openness and honest communication about ethical decisions are also key factors in maintaining healthy relationships with external stakeholders. Corporates that are proactive in engaging external stakeholders in their ethical process of decision making, including listening and responding to feedback from communities or business partners, can strengthen relationships and avoid potential conflicts. According to Pfeffer and Salancik (1978), good relationships with external stakeholders rely heavily on proper management of resources and information. In view of this, maintaining open communication and building trust are important steps to ensure that the application of ethical principles can bring benefits to all parties.

The application of ethical principles in overall business decision making has a much broader impact than just managing internal relationships. Corporates that maintain a commitment to ethics can strengthen relationships with business partners and communities, and increase the chances of achieving more stable, long-term sustainability. Corporates that apply ethical principles consistently in every decision will benefit in the form of a good reputation, harmonious relationships with external stakeholders, and more solid performance in the market.

CONCLUSION

The conclusion of this research shows that the application of ethical principles in business decision making has a significant impact on corporate sustainability, reputation, and relationships with external stakeholders. Consistently applied ethics can strengthen a corporates relationship with business partners and society, as well as increase customer trust and loyalty. Corporates that integrate ethical principles in every business decision are more likely to survive in the long term, as they build a good reputation and demonstrate a commitment to social responsibility and environmental sustainability.

The application of ethical principles brings long-term benefits, but corporates often face the challenge of balancing profit-first business objectives with the ethical principles underlying their decisions. Some corporates may be caught in a dilemma when choosing between short-term profits and social or environmental impacts. An erroneous decision can not only damage the corporate's reputation, but also have serious legal and social consequences. It is important for corporate leaders to ensure that ethics are applied consistently, and that every decision taken takes into account the balance between financial needs and social responsibility. Consistent ethics will provide a solid foundation for sustainable and impactful growth.

Suggestions include the importance of continuous education and training on business ethics for all stakeholders in the corporate, including leaders, managers and employees. A deep understanding of the principles of business ethics needs to be instilled consistently so that every individual in the organization has the same value base in making decisions. Measuring the impact of ethics on corporate performance should also be introduced to more objectively evaluate how ethical principles affect a corporates sustainability and reputation. Corporates are also advised to have clear policies on the application of ethical principles and to involve external stakeholders in decision making process, to ensure that decisions are financially beneficial, and ethically and socially responsible.

Through these measures, corporates can create stronger relationships with all stakeholders, improve their long-term performance, and ensure that they remain relevant in a society that is increasingly concerned with ethical aspects of business practices. Moreover, corporates should continue to develop mechanisms to identify and respond to emerging ethical issues so as to strengthen their commitment to ethical principles in all aspects of their operations.

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