

The Creation of Corporate Ethical Identity from the Perspective of Intangible Assets

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Abstract: The importance of ethics in organization cannot be overstated since in the 21st century a lot of companies have collapsed due to various ethical problems. This paper seeks to examine the ethics as a valuable asset in terms of intangible assets that may not always be visible but enough to play an important role in providing a competitive advantage to the firm. The value of ethics can strengthen the firm performance and firm profit is no longer seen as the firm's core competencies. Therefore, this study will reveal that ethics is one of the intangible assets and its characteristics is explained in the resource-based view. The code of ethics is used as the mechanism of ethics management as their core competencies in order to make sustainable the competitive advantage. Thus, this paper will propose that the ethical corporate will give a contribution to corporate identity as well as to firm performance and the uniqueness of its ethical stances will distinguish it from its rivals.

Key words: Intangible Assets • Resources-Based View • Ethics • Competitive Advantage

INTRODUCTION

The term 'intangible assets' is not used specifically and interchangeably with 'intellectual capital' or 'intellectual assets' because they represent a non-physical claim to future benefits. Management experts call it 'Intellectual Capital', while economists make reference to them as Knowledge Assets and Accountants categorize them as Intellectual Assets. Intangible asset has an interest in the improvement of the creation process of all types of organisations [1]. The value creation will be able to build up the resources, from the valuable assets to more competitive assets. The process of generating the value of intangible assets is crucial for commercial purposes, for instance, the shareholders can place their interest in emphasizing management ability to managing intangible assets in an effective manner from which a proportion of this value is derived.

The value of intangible assets is categorized into two categories, i.e. asset and capability [2]. As clarified in his research, intangible assets can also denote 'assets' or 'competencies'. The intangible assets include the

intellectual property right of patents, trademarks, copyright and registered designs; as well as contracts, trade secrets and data bases. On the other hand, he has also explained about the intangible resources like identity which can be recognized as an 'asset' because of the features of these asset have the 'sense of firm's belongings' that cannot be bought and exchanged, other than the fact that a firm also needs to maintain these value.

However, apart from this category, corporate identity is recognized as corporate intangible assets, in the sense that they are able to exploit company resources that are converted to valuables [3]. The effectiveness of the exploitation of assets tends to provide an indication that the company is able to manage the resources well. This leads to the good identity of the firm. In this regard, we recognize that the process of exploitation of a firm's intangible resources will involve certain elements of behavior. Thus, ethics can also be a source of intangible assets in the company and show how ethics can be managed, for it to become an identity and for it to be more competitive.

The strength of an organization is no longer determined by the financial performance but the ethical stance in the firm which, in the long run, symbolizes the fate of the firm. This is because financial indicator is always fluctuating, due to the fragile economic condition over time. According to [4], he has established that “profit is not the purpose of business enterprise and business activity, but a limiting factor on it”. The effectiveness of ethical stances will lead to the stability of the firm in terms of the performance, perception, reputation and image. Recently, the awareness of the crucial nature of ethics in an organization has been shown by the collapse of large firms in the US i.e. Enron company explained by the irregularities that had prevailed in the ethical issue. It is evident that ethics is a significant element in business organizations and becomes an indicator in enhancing company performance [5] rather than the profit alone. There is the emerging consciousness that the profit is not an ultimate goal of running a business and the good ethical stances will bring value to the organization’s performance.

Intangible Assets in Relation to Resources-based View:

The resource-based view (RBV) was first proposed by [6] in his literature that was rooted from the theory that the successful firm performance is actually determined by how firm possesses and exploits its resources. The resource-based view of the firm (RBV) is one of the fields in strategic management area that is important in explaining firm resources. Firm resources fall into two category which are tangible assets and intangible assets. Currently, intangible assets merge as a new mechanism in determining firm performance. RBV has realized that firm performance is largely driven by some special characteristics from firm resources i.e. valuable, inimitable, rare and non-substitutable. Firm's competitive advantage can be achieved as a result of the exploitation of the resources of the firm, particularly from the perspective of an intangible asset in determining the firm performance[6].

RBV is the basis for a competitive advantage of a firm and it depends on how the company is processed and how the resources are allocated to become valuable resources. The effective resources of a firm can be transformed, from short-run competitive advantage into a sustained competitive advantage. As has been mentioned earlier, ethics is recognized as a power tool in enhancing competitive advantages. The competitive ethical element is imaged in the VRIN; RBV criteria, (a) valuable- ethical practices enable the firm to use its value as their strategy in grabbing the intention of company stakeholders to look

closely into the value of ethical elements in the organization, (b) rare- by definition, the firm resources must be distinctive or rare, from the others. The implementation of ethical practices is rare because not all companies are aware of its importance because some companies have the profit-based purpose. This contributes to the distinction between its competitors and the ability to create competitive advantage, (c) inimitable – the ethical practices of each company are far different from one another, as it depends on how the ethics is practiced. The other companies cannot duplicate the other company’s ethical practices. When ethics as the company assets, is able to be maintained and controlled by only one firm, it can potentially be a source of competitive advantage, (d) non-substitutable- when the firm assets cannot be duplicated, the strong value of ethical practices in a company will not be able to give a perfect substitute for that value. According to [7], intangible assets have these four significant values that can be transformed to sustainable competitive advantage and it is highly recommended to be added as the inner element of ethical identity. For those companies that care for and protect, these valuable resources, the values are seen to be able to enhance and strengthen firm’s financial performance and ethics plays an important role in sustaining a firm’s competitive advantage, as predicted by the resource- based view.

Ethical Theory in the Business Perspective: In the business context, [8] propose that “business ethics requires the organization or individual to behave in accordance with the carefully thought out rules of moral philosophy”. Regarding the moral aspect, [9] identify the fact that business ethics consists of moral principles and values that govern the actions of the company, due to what is right and what is wrong [10,11]. According to the discussion of the inter-relatedness of ethics and moral, Aristotle (384-322 B.C.) has issued an ethical justification and held ethics as a particular branch of philosophy which concerns with morals and consequently expounds certain ethical theories. From this point of view, it is identified that ethics stands as a necessity that is grounded to the moral philosophy.

Since the ethics forms a relationship with moral, [12] has identified the different types of ethical theory, which is either the outcome of a situation (consequentialist view) or the process to the outcome (non-consequentialist view). In reference to other scholars, the study on ethical philosophy as mentioned in [13] has resulted in the emergence of two groups of

ethical theory namely theorists of teleology and theorists of deontology. According to [14] in [13], the teleological philosophy is convening with the moral worth of an ethical behavior and the “worth” is determined totally by its consequences. Meanwhile, as the other group names deontology as the concept of non-consequentiality, these theorists believe that an alleged wrong is still wrong even if it gives good results (Shaw, 1991). Then, other ethical theories have appeared although carrying only a fraction of the theory of deontology and teleology, such as the right views (Brady 1987), egoism (Shaw 1996), justice or view (Donaldson 1994), and integrative social contracts (Donaldson 1994). However, most researchers such as Shaw 1996; Brady 1987; and Donaldson 1994 believe that the ethical theories are the root of the construction of business ethics in the West. Hence, these theories are taken as the reference point of business ethics studies by researchers all over the world. According to the consequentialist view and the non-consequentialist view, ethical actions are applied to specific circumstances in specific decision making and any of the ethical decision is supported by moral principle. This is because, ethics and moral are loosely seen as siblings who really need one another.

According to the consequentialist and non-consequentialist views, we have found that an ethical behavior is influenced by the basic ethical practices in the organization and it provides better ethical decisions in the decision-making process. Better ethical decisions are influenced by moral elements embedded in the organization. However, the action is considered unethical because this does not comply with the code of ethics, even if the resulting decision could be beneficial to all parties. The effectiveness of adoption of the codes of ethics can promote higher level of ethics in the entity and will reduce the unethical action and decision making.

In Explaining Codes of Ethics and Ethical Behaviour in Organization: Studying the behavioural contextual elements of codes of ethics in organizations necessarily broadens the scope of research on this topic because it is widely accepted that the corporate code of conduct is the sole influence of ethical behaviour in organization [15]. According to [15], there is a field in the behavioural context that has attracted much interest, which is the relationship between the perception of wrongdoing in the organization and the presence and absence of corporate codes of ethics. There are many studies that describe the relationship between ethical behaviour and corporate code of ethics. Several theorists like [14, 16 and 17] have

suggested that ethical behaviour can be influenced by a code of ethics in the organization [18]. According to [14] has suggested that, as part of their “contingency model”, the corporate policy that is related with the adoption of ethics will influence ethical/ unethical behaviour in the organization and the enforceable code of ethics will allow employees to have the highest level of ethical compliance in accordance with the set of ethical standards. Then, [16] introduces a “person-situation interactionist” model of ethical decision making. She states that the code of ethics is part of the corporate culture variables and the acceptance of ethical corporate can well generate ethical culture within the organization and “another way organizations attempt to guide member’s ethical behaviour is by developing formal codes of ethical conduct” (1986, p. 613). Furthermore, [19] have further found that, the decision to behave ethically is influenced by individual or situational factors namely the background, personality, decision history, managerial philosophy and reinforcement in the organization. However, another study has found that the codes of ethics are not significantly linked with the ethical behavior in organization. Previous study, [20] have conducted a survey on 150 business students and this study finds that the corporate codes of ethics are not effective in determining a person’s ethical decision-making behavior.

However, this adoption of ethical codes will provide some advantages in improving the level of ethics in the organization and promotion of ethical behavior in organizations. According to [15] it is also the way to promote effective codes of ethics in terms of promoting ethical behavior in organizations and the acting as part of the socialization process is designed to ensure high standards of behavior. Thus, it can be claimed that the ethical behavior in the organization is resulted from the standard codes of ethics which is derived from the intangible assets, that highlight the importance of identity to the organization.

Determination of Ethics as a Corporate Identity: Corporate identity is one of the determinants of the firm's intangible assets [3]. In [21] state that the corporate identity represents “the ways a company chooses to introduce itself to the public” as “what an organization is” (2001, p. 154). The question of “what” expresses the meaning of how the company makes the distinction between itself and its rivals. In the context of values and norms, the process of differentiating oneself from others contributes to the “what” of the company and this appears to have a distinctive term of ethical dimension [22].

Ethics becomes a determination in corporate identity and previous studies have examined the relationship of ethical behaviour with corporate identity i.e. [23, 24, 25]. Corporate identity is viewed as the vehicle by which a company's character is conveyed to different audiences. Similarly, [24] explain that "corporate identity refers to an organization's unique characteristics which are rooted in the behaviour of the members of the organization" (1997, p. 341). Then, [23] establish another definition that it is "the set of behaviours, communication and stances that are representative of an organizational attitudes and beliefs, etc. a firm's ethical stances (i.e. its ethical values, behaviours and communications on ethical commitments), etc. that may enhance corporate performance" (2007, p. 36). We are aware that ethics is the foundation in the entity rooted from the behaviour of the employees that has been influenced by the codes of ethics in the organization. The 'rare' in the context of the uniqueness of the codes of ethics in the organization, has the ability to encourage employees to be more ethical. This relates to the concept of morality where the individual's intrinsic morale will always support more ethical behaviour in organizations. It is supported that the behaviour of the employee is associated with the employee's morality in the behaviours adopted while doing daily tasks [25] to perform the decision-making in an ethical manner [26]. The practices of good ethics in an organization will contribute to competitive advantage and as well as ensuring that the firm's financial performance will be robust.

As mentioned earlier, ethics, instead of firm profit, arouses higher level of competitiveness in enhancing firm performance. The ethical value gives the impression that these intangible assets can give a firm length of life because this endurance is influenced by the strength of ethical stances rather than financial mechanism as described previously. Nevertheless, there are scholars who agree that this ethical initiative will be able to give a positive impact to firm performance because the ethical behaviours result from the intangible assets, which have a vital role in long-term business success [27, 28].

Therefore, we have found that the sources of firm's competitive advantage over its competitor come from its core competency which is ethics and this gives a firm competitive advantage over its rival. This gives us the idea that ethics have a positive effect on the firm market value.

In Explaining the Firm Performance: Prior research has come to a significant relationship between ethics and firm performance [23, 29, 30, 31 and 32]. Researchers like [23] have empirically tested the impact of the ethical identity of the company on financial performance. They discover that companies with strong ethical identity can obtain a greater degree of stakeholder's satisfaction, which in turn affects the financial performance of companies positively. In terms of the financial background, return and assets and firm value markets will increase for those companies who have strong ethical identity and the revelation about this ethical identity shows that these intangible assets are recognized as strategic tools in competitive advantage. Then, [29] also have conducted a survey in order to examine the effect of the publicity on environmental performance that has been affected by firm's share price. This study establishes that good publicity of environment performance has significantly contributed to the corporate perceptions. It has further found that the corporate-revealed ethics is increasing the firm shares. Besides, [30] have conducted a survey on the communication of ethical identity in annual reports issued by Islamic banks in the Arabian Gulf Region. This study confirms the fact that the ideal of ethical identity based on Islamic precepts is more communicated in the social reporting. This finding has certified that the Islamic bank is grounded by Shari' a principles.

Nevertheless, we suggest that the ethical identity ideal is highly recommended to disclose since the disclosure of ethics does not reflect the accountability to the society but also ultimately to God. Then, the importance of ethics is shown by [31] that have done a study in order to know the impact of environmental

Table 1: Ethics and Firm Performance

Reseacher	Independent Variable	Dependent Variable	Method Used	Results
Lorraine, <i>et al.</i> (2004)	Environment's publicity	Share price	Survey	Significant
Berrone <i>et al.</i> (2007)	Corporate ethical identity	Return on Assets and Market Value	Survey	Significant
Haniffa and Hudaib (2007)	Communicated Identity	Ideal Identity	Exploratory Survey	Significant
Jo and Kim (2008)	Ethical Reporting and CSR Disclosure	SEOs (Seasoned Equity Offerings) Market	Survey	Significant
Chun <i>et al.</i> (2011)	Corporate ethics	Firm performance	Survey	Significant

publicity to the firm performance. The findings of this study suggest that the exposure the ethical announcement of the long-term impact on the SEO will enhance organizational performance. As a result, an ethical organization will provide extensive exposure to attain higher performance in return. For the effectiveness of ethics, [2011] have empirically tested the impact of corporate ethics of firm's financial performance. They have found that the company with high corporate ethics tends to have its financial performance enhanced through the ethical commitment and the collective behaviour. The commitments of employee ethics have the greater degree than the internal and external ethics in enhancing organizational competitive advantage.

Consistent with the abovementioned literature, it has been revealed that the ethical identity of the organization carries a significant value that may enhance firm's financial performance. They also indicate that, ethical identity can be a valuable tool to create intangible assets like corporate image and enhance corporate reputation which can be the sources of competitive advantage. We also denote that, by implementing the institutional theory, corporate ethics is proposed as an institutional force in enhancing firm performance through the behaviour in the corporate entity and their ethical action. Therefore, through the adoption of ethical behaviour in enhancing firm performance, the capability to build competitive advantage is certified in order to fulfil stakeholders' satisfaction. This is a result of the reliance on their ethical commitment in catering to the demand and reaching their maximum satisfaction value over the organizational performance.

Future Research- a Suggestion: It is important to have ethics as the organizational daily practices. The practices are not only focusing on the organization itself but also on the people in the entity, to ensure that the organization is on the right path. As has been discovered through research, ethics are very valuable tools in enhancing firm's competitive advantage and some companies are also conscious that ethics are as important as profits, instead of focusing on the profit alone. In future research, we need to extend this concept practically that ethics is not just philanthropist by nature, but also marks itself as a sturdy foundation in the business. In Malaysia, Shari'a-listed companies are those that have the full ethical practices in the context of Islamic religious obligations.

Since the Shari'a firm is grounded by Shari'a, they must obligate all the financial activities that are parallel with business ethics in Islam that have been constituted in Islamic intellectual discourses i.e. Holy Quran and Hadith. Due to control of the ethical financial activities, Islam has outlined its codes namely the ethical axioms as suggested by Syed Naqvi, where they specifically on the relevancy in determining the rules of economic behaviour in a society.

Furthermore, practically, ethical activities are a compulsory need to disclose which demonstrates that the company is not only accountable to its stakeholders but also to God. As stated before, ethics are valuable tools in enhancing firm's financial performance and we have found that ethics in Shari'a-based companies should achieve something more that is happiness.

CONCLUSION

The discussion on corporate ethics has emerged as an important topic lately. Regardless of whether the focus is on business, economics, human resources, the aim is only one, which is to find the best way in improving organization and individuals ethically. In this research, from the theory of business ethics, there is evidence that ethics is a necessity in the business entity when it comes to making decisions. From that, the characteristics of ethics are translated from resource-based perspective and then are recognized as intangible assets in the organisation. Due to the effective characteristic, ethics is upheld as a very valuable asset in enhancing firm competitive advantage. The heterogeneity of the value of corporate ethics makes it capable to have the sustainability in increasing firm performance. However, some companies do not seem to be aware of the importance of ethics because the focus is still on profit, while it is already described in previous studies that the profit as financial instruments tends to be unstable, depending on the economic conditions. Therefore, this study has an awareness element function as the most important element, to ensure that pursuing ethical practices will give more benefits towards enhancing the name of the organization.

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