

## **BUSINESS ETHICS, BETWEEN THE THEORETICAL CONCEPTS AND THE ROMANIAN FIRMS' PRACTICES**

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### **Abstract**

*Business ethics reflects the philosophy of business, of which one aim is to determine the fundamental purposes of a company. If a company's purpose is to maximize shareholder returns, then sacrificing profits to other concerns is a violation of its fiduciary responsibility. Ethical issues include the rights and duties between a company and its employees, suppliers, customers and neighbors, its fiduciary responsibility to its shareholders. Issues concerning relations between different companies include hostile take-overs and industrial espionage. Related issues include corporate governance; corporate social entrepreneurship; political contributions; the marketing of corporations' ethics policies. Business ethics issues are complex, due to the extensive consequences, to the many alternatives and to the conflicting results, uncertainties and the personal implications. Managers make decisions and develop actions affecting the others; if the effects are adverse, if the others are suffering, then we are dealing with an ethical issue that requires a certain level of an ethical analysis, in addition to the usual economic analysis. But what is more important above all is the recognition that every business decision or action that may affect the others. In the business Romanian environment the unethical behavior is not just an exception.*

### **Keywords**

managers; business; ethical issues; decisions; morality; social responsibility

### **JEL classification**

M10

### **Theoretical approaches**

The term 'business ethics' came into common use in the United States in the early 1970s. By the mid-1980s at least 500 courses in business ethics reached 40,000 students, using some twenty textbooks and at least ten casebooks along supported by professional societies, centers and journals of business ethics. The Society for Business Ethics was started in 1980., and the European business schools adopted business ethics after 1987 In 1982, the first single-authored books in the field appeared. (Apel, 1987)

Firms started highlighting their ethical stature in the late 1980s and early 1990s, possibly trying to distance themselves from the business scandals of the day, such as the savings and the loan crisis. The idea of business ethics caught the attention of academics, media and business firms by the end of the Cold War. However, the legitimate criticism of business practices was attacked for infringing the "freedom" of the entrepreneurs. (De George, 1990)

Business ethics reflects the philosophy of business, of which one aim is to determine the fundamental purposes of a company. If a company's purpose is to maximize shareholders' returns, then sacrificing profits to other concerns is a violation of its fiduciary responsibility. Corporate entities are considered as legal persons all over the world. The Economist Milton Friedman writes that corporate executives' "responsibility... generally will be to make as much money as possible while

conforming to their basic rules of the society, both those embodied in law and those embodied in ethical custom". (Friedman, 1970). Friedman also said, "the only entities who can have responsibilities are individuals ... A business cannot have responsibilities. So the question is, do corporate executives, provided they stay within the law, have responsibilities in their business activities other than to make as much money for their stockholders as possible? There is a strong temptation to rationalize these actions as an exercise of "social responsibility." In the present climate of opinion, with its wide spread aversion to "capitalism," "profits," the "soulless corporation" and so on, this is one way for a corporation to generate goodwill as a by-product of expenditures that are entirely justified in its own self-interest". Similarly, another author business consultant, Peter Drucker observed "There is neither a separate ethics of business nor is one needed" (Drucker, 1999) ,, implying that standards of personal ethics cover all business situations. However, Peter Drucker in another instance observed that the ultimate responsibility of company directors is not to harm the others. Another view of business is that it must exhibit corporate social responsibility (CSR): an umbrella term indicating that an ethical business must act as a responsible citizen of the communities in which it operates even at the cost of profits or other goals.

The ethical issues include the rights and duties between a company and its employees, suppliers, customers and neighbors, its fiduciary responsibility to its shareholders. Issues concerning relations between different companies include hostile take-overs and industrial espionage. Related issues include corporate governance; corporate social entrepreneurship; political contributions; legal issues such as the ethical debate over introducing a crime of corporate manslaughter; and the marketing of corporations' ethics policies. (Beauchamp, Bowie, 1997)

Business ethics is a field of applied study of ethics, on the determination of moral principles and codes of business behaviour, governing relations between people within organizations and govern business decisions and the managers options. (Barry, 1998)

Ethics management is based primarily on the relationship of trust between the two parties that interact; confidence means actually decrease the risk taken and protect the rights and interests of those affected. (Ackerman, 1976) The literature has determined that trust is in direct relationship with some modern management techniques, most notably: management by objectives, participatory management, social responsibility and the quality circles.

The unethical behavior in business is not just an exception. Each of us can give many examples. What are the causes? Knowing these causes can help to prevent certain unethical behaviors. Numerous case studies, surveys or managerial level simulations in training programs revealed some causes of unethical behavior:

- The possible gain; the temptation role in the unethical activity is real; especially if a punishment does not exists, anticipating a substantial gain through unethical action is expected to promote unethical decisions;
- The conflict of roles; many management dilemmas are actually forms of the conflict of roles, putting pressure on the unethical decisions; for example, insurance agents or a banking company can be pressed to promote those products which have wider benefits for their company, not for the customers;
- The competition; economic resources is often limited and may determine the existence or the decline of an industry, price fixing between competitors or the violation of monopoly are more common; if there is no competition, there is a greater temptation to make unethical decisions, because the chance of large gains is not offset by the market balances;
- The personality; some studies have shown that people strongly oriented to the economic values or those with a strong need for personal power are more prone to

unethical behavior than the low-oriented in this direction; in addition, each person addresses a certain extent, his own moral issues, which strongly influence the decisions in morally sensitive situations;

- The organizational culture; groups, subgroups, leaders of organizations can be models, each of them contributing to the culture of the company; but if they are not based on some strong values or if they have not implemented a code of ethics with a real impact decision making, the organization culture can fall prey to a "success at any cost", attitude, which means that it will be willing to unethical behavior.

An analysis of the ethical issues that arise in a business organization is considering five dimensions:

- Personal Ethics of managers and employees;
- The individual Ethics, as members of the organization and professional ethics;
- Organizational Business Ethics (rules, customs, norms);
- Ethics company in its relations with the external environment (suppliers, customers, competitors, media, society as a whole, the natural environment);
- Ethics in the proper field of activity;
- Factors influencing the managerial ethical behavior, taking the manager as a person (family influences, ethical and religious values, needs and personal standards), business organization (organizational culture, policies and codes of conduct, superiors' and colleagues' behavior) and external environment (government regulations, norms and values of society, ethical climate of that industry).

The most important elements of the ethical climate of an organization include:

Behavior and support of the top management;

- Realistic objectives of the company;
- Effective vertically and horizontally communication;
- Ethics programs;
- Preparation and training in ethics;
- Processes that lead to ethical decision making;
- Imposing the disciplinary sanctions for violation of ethical standards;
- Using certain mechanisms to denounce the existence of corrupt or illegal practices within the organization;
- Corporate codes of ethical conduct;

The ethical imperatives for managers can be grouped into several categories, as they express (Le Tourneau P, 2000):

- Responsibility face to shareholders (proper management, loyalty, confidentiality, information, transparency);
- Responsibilities face to employees (fair pay, professional development, respect for privacy, respect the right of petition);
- Responsibilities face to customers (original product and service quality, ensuring safety in use, information, correct advertising);
- Responsibilities face to the community (environmental protection, contributions to solving social problems, and respect for cultural diversity).

## **2. Case study**

The present study considered the ethical analysis of the situation in the Romanian companies, ethics and how it is implemented. We also tried to point out the main types of the immoral behavior encountered in the environmental Romanian business, given the social responsibility cultures. Using in our case study a set of statistics and official documents, we tried to see to what extent the ethical management can be a solution for our country.

In conclusion we tried to answer the question: what is the level of institutionalization in ethics for the Romanian business?

The Case Study objectives were:

1. Delimitating the knowledge levels of the concepts of CSR and business ethics by the companies managers from the Bacau county;
2. The organization is legally / ethically / or to the social responsibility oriented. What is the orientation of the organization?
  - to social responsibilities;
  - to ethics;
  - to compliance law.
3. The changes in the business environment influences / does not influence business ethics addressed to consumers.

Considering all these, the most debated moral issues in management are:

### **Bribery**

It is used to manipulate people by "buying" influence. It is defined as "the offering, giving, receiving or soliciting anything of value to influence the action of attempting an official in exchange for the release of its legal duties". The value can be in the form of direct payments of money or property; also can be in the form of reward after the deal was completed.

Bribery creates a conflict of interest between the person receiving the bribe and his organization. It is used mainly to gain sales (customers) to enter new markets or to change public policy.

If giving money (or receiving) is easily defined as bribes, in exchange, the intention of giving gifts is more difficult to assess as bribes. A gift can be given as a sign of courtesy to some occasion, or can influence future business decisions. If a gift is offered with the intent to influence behavior, it is bribery. If that gift does not influence subsequent behavior, then it is not a bribe. But there was absence of this influence is difficult to prove.

Bribery reduces the freedom of choice, altering the terms of decision making. It is used to make more attractive one alternative compared to the other, for the one who makes the decision; usually, this alternative is the one that produces less satisfaction and fewer company profits - because otherwise, why would not need bribes?

### **The constraint**

It controls the people by force or threats. It is defined as "someone ordered using force or threats of any kind". It is used to determine a person to act against their own beliefs, the personal will, in the interests of another (the one who uses coercion). Strength is often used as a threat by the strongest.

The constraint may involve the threat of blocking promotion, job loss, removal of the respective etc. For example, trade or tourism, the constraint is found where the buyer is obliged to give the desired products to buy other products.

Constraints can also mean the use of force to convince the seller to work only with certain clients, the buyer to buy only from certain suppliers or only certain goods and services - all free distorting competition. A possible consequence could be higher prices or lower quality compared to the situation where the market would function normally.

### **Deception**

It manipulates people by misleading or organizations by deception; is the act of lying by falsifying the facts, or make false statements knowingly, express or implied, about a fact present or future.

Dishonest behavior is the most common ethical issue. Deception includes distortion or falsification of research or accounting data, creating a false advertising or false products. It also includes reports false, incorrect assessment of the performance

indicators, the financing reports are unreal. Deception can reach very high levels, causing huge economic damage or damage the consumer's health.

**Theft**

It means taking something that is not your own, without the consent of the owner. Theft can cover a wide variety of situations in the business world; stolen property may be physical or intellectual; theft is to use confidential company information for the personal gain; to counterfeit products; to inflate prices unduly deceiving consumers etc.

**Discrimination**

It is unfair treatment, distinguished persons because of race, sex, nationality, religion etc. Discrimination refers to differentiate people in terms of qualification, contribution to business activity, etc., when it comes to remuneration, employment, promotion, evaluation, improvement; Discrimination occurs when not identified relevant criteria of differentiation.

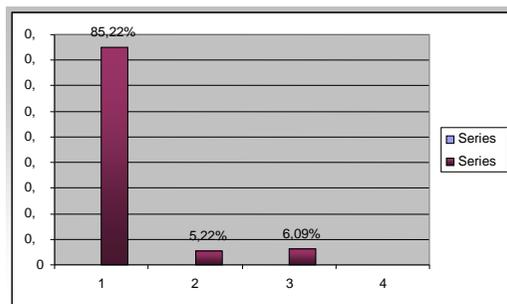
These are the most common problems that business world include. They are present everywhere, although not with the same intensity. Besides them, the marketing practices, including the promotional activities, advertising, often bring into question the need to increase the responsibility and morality of those who support them.

A main part of the studied companies managers considered that they have an ethical attitude face to their customers, as follows:

Question: do you consider the your company proves an ethical attitude face to your customers?

**Table 1**

yes	no	I cannot estimate this
85.22%	5.22%	6.09%



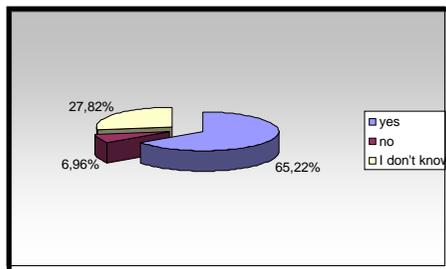
**Figure 1. Opinions estimation about the ethics face to customers.**

A major part of our business agents don't recognize their unfair attitude face to law, as follows:

Question: your company is preoccupied to permanently respect law?

**Table 2**

yes	no	I don't know
65.22%	6.96%	27.82%



**Figure 2. Expression of the managers' opinion versus legality.**

**Conclusions**

We concluded noting that applying of the ethical management, the institutionalizing and internalization model is, for now, a wish quite far away from the reality and there are a lot of problems that needs an "exceptional" attention before the desire to make the Romanian companies as ethics ones becomes a reality. Our contribution is the justification for the adoption and the integration of a new model of business ethics and to create a business environment more responsible by the management of ethics, justification was made through an analysis of the limitations of previous methods (assessed in order of historical succession), presentation exhaustive testing of this solution and adapt it to the private organization in Romania, by analyzing and evaluating the ethical status of our country, by using various case studies.

In addition we believe that we were able to add to the business ethics field of study a comprehensive and dynamic approach and find a concrete and coherent implementation of the principles and moral values available for the "daily work" of the Romanian companies - a viable way out for the Romanian business. At last, we showed that economic activity can never be separated from the moral evaluation and the moral element of any economic or social treatment.

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