

APPROACH REGARDING THE INFLUENCE OF BUSINESS ETHICS ON CORPORATE GOVERNANCE

Abstract

We may affirm that there is a cost for those who choose to live ethically in the midst of a world where fraud, tampering, theft, industrial espionage, corruption, bribes, conspiracy, tax evasion, embezzlement and unfair competition proliferate. The issue of business ethics has gained great relevance today, not only from research or journals that have proliferated views on this subject, but also because the economic and business reality itself shows it almost daily in the media. Both from the political and economic perspective, social responsibilities, the headlines on benefits due to fraud, bribery, corruption, privileges, unfair competition, have had as a result in many European countries the claim that somehow a stop should be put to these problems, which have irrupted heavily for several decades.

Business ethics need not be a brake on economic benefit of companies, but it gives the business organization, even by using an Ethical Code, the social legitimacy it needs to be able to operate on the natural and business environment. The attitude of a company's senior management that reflects the observance of the business ethics both by the managers' own actions and by the policies applied within the company, by the decisions that are made, and the tasks that are set, by the adopted policies and the way in which the disciplinary sanctions and regulations are highly important for a clear grasp of the role played by ethics in business and regarding the good functioning of an organization.

Key words: *ethics, fraud, management, social responsibility.*

1. Social responsibility as moral responsibility

Responsibility represents the obligation to answer, to account for something, to show your awareness towards the social obligations. In this sense, a formal definition of the social responsibility stipulates the manager's duty to choose and apply those sections that might contribute to the wellbeing of the society in consensus with the interest of the society and of the organization he/she manages.

The social responsibility is thought to be a company's constant obligation, beyond the legal obligations or those imposed by the economic constraints, to follow long-term objectives that are useful for the community. The company believes that it is responsible not only towards the clients, the suppliers, the employees, the government authorities, the creditors, the local communities, and the public opinion. The manager's mere claim of the need for social responsibility and ethical deeds in their organizations is not enough. Neither the good nor the anticipated effects result from these claims. The whole organizational culture will uphold the social responsibility and will have to reward and strengthen its ethical deeds.

Therefore, the approach of the issues related to social responsibility must be framed and correlated with the social and cultural environment of the respective time span, country and organization. As well as this, mention must be made that social responsibility in business becomes reality when the persons involved accept the established line of conduct and behaviour.

The most important issue that must be taken into account, regardless of the type of business, is the achievement of the public interest and of the social responsibility of a business, that is to combine the company and employees' private interest, with the general one of the society and of the economy as a whole, a desideratum that represents the basic condition for the existence and functioning of all economic entity.

Well understood responsibility encourages loyalty. Loyalty and mutual support spread as far, and in all the directions as the businesses, both within the organisations and outside

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them. The duty and the moral obligations spread among the colleagues, the staff, the clients and the suppliers, considering that all of them need honoured contracts and understanding. Loyalty has become, at present, an intrinsic quality of the developed activity, rewarded, at different rates by the managers of the trade companies, firms...

Any company holds some responsibility on the **economic and social level**. This point of view is currently accepted by all the “actors” of the business world. Still, the measure in which this responsibility is divided between the two planes is perceived differently. As far as the economic side is concerned, there are two approaches taken into account, mainly²:

2. The classical approach – the firms exist to bring benefits to the owners or to reduce transaction costs. Milton Friedman sustained that the main responsibility managers have, is to manage their business so as to maximize the owners’, and respectively the shareholders’ benefit; these ones, in their turn, are concerned only about the financial outcomes. In our opinion, any “*social good*” paid by the company undermines the market mechanisms: “the social goods” shall be paid by the shareholders (the profit diminishes), by the employees (salaries decrease), or by the clients (through price increases). In this last case, sales could drop and the company might encounter difficulties.

2. The socio-economic approach- profit maximization is any company’s *reason to be*; obviously corroborated with *the ensurance of its survival*.

Arguments in favour of this statement:

- trade companies are legal bodies registered in a country that have to comply with the laws in the country in which they operate; which is why they are not responsible only to the shareholders;
- the time horizon of a company’s existence is a long one, so it must follow the economic outcomes on the long term and, for this purpose, it will also accept some social obligations (such as the lack of pollution, the lack of discrimination) and the costs incumbent on them;
- Experience has shown that the companies are not mere economic institutions, but they also get involved in politics, in sports (sponsorship), they sustain the national or local authorities etc.

The modern concept of business ethics³ refers to the problem of the social responsibility of the businesses, to the setting of an appropriate organizational culture, which should take into account not only the need of increasing the profit, or the shareholders and associates’ incomes but also the adequate fulfilment of a society’s needs, of all the social conditions at work within a society. The modern concept of the business ethics concerns the issue of the businesses’ social responsibility, the setting of an adequate organizational culture, that should take into account not only the need of increasing the profit, the shareholders and associates’ income, but also the achievement of all the social conditions that act within a society.

2. Business Ethics

Business ethics must find answers to the following more significant questions:

- Where does responsibility towards the society start and where does it end?
- What behaviour rules should govern businesses and their managers?
- Is it good that businesses place the shareholders’ interests before the requirements of the society?

Still, the most difficult situation is to be found in practice, related to the management of the company, is the one related to the *existence and the working out of the so-called ethical dilemmas*. Our assertion is related to the natural decision-making process, inherent to all

² Țigu, Gabriela *Etica afacerilor în turism*, Editura Uranus, București, 2003, p.21.

³ See Crăciun, Dan (2005)–*Business Ethics. A Short Introduction*, ASE Publishers, București, chapter 7.

individuals, especially to the managers, of making the difference between good and bad, which is highly difficult to measure and define. We must also take into account the fact that the *ethical dilemmas* appear when we talk about relating the economic performance to the social ones and to achieve, as much as possible, a balance within the company, or when reality is different or repeals what the managers have designed and outlined with reference to the ways to follow and the solutions conceived a priori, between what is thought and what it is in fact.

What stands out actually is one practical issue which is extremely difficult to solve, since life has always shown that things that are ethical for someone may seem unethical for someone else.⁴

As a matter of fact, the dilemma to be found within the relation *responsibility/morality* – entails the shift of the emphasis in the discourse related to the business person's behaviour code from "morals" to the ethics of responsibility.

Its working out depends, in our opinion, on a reverse- kind of thinking, just like in *management games*, being based on the following fundamental questions:

- a. Who would win and how much?
- b. Who would lose and how much?

The most common ethical issues found in corporate practice are: the employee's interest conflicts, the gifts, the benefits, sexual harassment, unauthorized payments, the employee's private space, environment issues, the labour safety, the pricing policy, all kinds of discriminations, etc.

There are numerous cases in which employees of various companies show unethical business behaviour. For example:

- giving illegal commissions to obtain confidential information about competing companies;
- illegal traffic with goods found in the state's monopoly;
- running unauthorized activities;
- using false or illegally obtained documents;
- the cases of tax avoidance, underground economy;
- misleading the State's control authorities;
- Using goods of illegal origin, etc.

The managers have to name all the people and the groups inside and outside the organization that have connections, commitments, shares or interests to achieve or to turn to good account the company's performance.

When identifying the situational factors that influence the ethical behaviour, *the organization* holds the central place. People learn the moral values during the first years of childhood, at home or in society, but also in their organizational environment. The policies and the behaviour codes, the corporate culture may promote high esteem granted to the employees, while the inside groups influence the ethical behaviour, through the support and the perspectives they offer to the members. The written rules together with the corrective measures, although useful for the promotion of an ethical climate for the whole organization, cannot always guarantee good results. The emotional elements involved in the socializing process within an organization may be even more beneficial, since they encourage the ethical behaviour and create the framework for the correction of the illegal acts and prevent the infringement of the corporate norms.

Managers must know what is forbidden, must observe the legal stipulations and promote fair trade practices with the business partners. The general economic environment encourages, through competition, a behavior standard all those who aim at obtaining competitive advantages in their field of activity should subscribe to.

⁴ Synthetic idea revealed in Daft, R., (1988)-*Management*, The Dryden Press, New York.

a) All these things were known and tolerated, because while everything is fine there are no reasons to complain. Who can deny that there was misuse and abuse as well as complacency? Ultimately, what existed and was evident was the fraud and deceiving the shareholders.

b) Many are flying the flag of the law of corporate honesty, raising voices of sanctions, although the creation of value for shareholders and the financial benefit on the short term as basic commandments for the corporations have been defended until recently. Not to mention the investment banks as luxury players that encouraged the purchase of such shares.

c) It is true that the controls have failed, but we would say that what actually failed is a more important thing: *ethical behavior*. We are focused on the example of Enron, which had found a firm responsible for auditing their accounts, which lets itself seduced by the tens of millions of dollars it received from Enron, to hide the illegal practices of hiding the losses. Also, their balance sheets showed fictional income of over 600 million dollars, which they later tried to explain saying they had recalculated and it was wrong, because their desire to make money urged them to go to tax-heavens that facilitated it, just as easy as it would be to safeguard the money of the drug traffickers and terrorists.

d) It is also believed, that the existence of some formal ethical codes is not enough. The managers themselves, we think, must be models of ethical behavior.

In Mathematics and in Physics there are “correct” and safe answers; unfortunately this does not happen in the field of management too, which refers to activities that involve taking into account numerous factors.

If we have a look at a managerial decision from the perspective of a mathematic model, we shall see that the result depends on a series of variables: people change, competition increases, goods, circumstances and financial situations change. Therefore, the results are also insecure.

Conclusions

The incapacity or the lack of political will to assume the responsibility generates multiple effects that place business ethics in a critical situation. An environment which is hostile for the business will give birth to atypical behaviour, endangering the system of ethical values. The red tape, the corruption, the exaggerated fiscal laws, the lack of stimulating sectorial policies etc. are the enemies of the free economy and of the social relations in different communities. This is, for example, what unethical behaviour, which damages the organization and the society seriously, means generally speaking, leading to the appearance of some scourges created by the modern life (crime, abuses, discrimination, drugs, intercession, corruption, etc), to the impairment of the human condition (moral and material distress), etc.

The interest for *ethical behaviour* is focused in keeping firm’s (organization’s) competitiveness and personnel’s trust for the activities and tasks done.

We consider that, where appears a lack, a breach, of implementing efficient *business ethics* within an organization, the way of fraud, malfunctioning and even corruption, is opened, because managers, owners, are first of all, human beings, with subjective perceptions and mental representations.

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