THE CHALLENGES OF BUSINESS ETHICS: THE BASIC PRINCIPLES OF BUSINESS ETHICS – ETHICAL CODEX IN BUSINESS

Anton Jamnik

Anton Jamnik
University of Ljubljana, European Academy of Science and Arts in Salzburg
Ljubljana, Slovenia
anton.jamnik@guest.arnes.si

ABSTRACT

Past several decades management has become a vital concern to society. If we look at pools, we notice that the public does not have good opinion about management ethics and business. For the management community to turn this situation around, significant efforts are required. It should be understood what management ethics means, why it is important and how it should be integrated into decision making. Principles of ethics from moral philosophy and management theory are available to inform interested managers. Further requires that managers understand, and be sensitive to, all the stakeholders of the organization and their stakes. If the moral management model is to be achieved, managers need to integrate ethical wisdom with their managerial wisdom and to take steps to create and sustain an ethical climate in their organizations. When all that will be done, the desirable goals of moral management will be achievable.

1. INTRODUCTION

It is the sign of a weak mind to be unable to bear wealth. (Seneca)

1.1. On the track of business ethics

Whoever appropriates more than the minimum that is really necessary for him is guilty of theft. (Mahatma Gandhi)

It is needless to stress that nowadays business ethics is of extreme importance. The economic crisis in the entire world, as well as in Slovenia, where it has been specifically extensive, makes us consider the relation between material possessions (wealth) and man. Who serves whom? Who is the means and who is the end? Unfortunately, the answer to these rhetorical questions offers itself, and based on the actual state of affairs, it says that man has become enslaved to material goods, when in fact the opposite should have happened. However, to avoid moralizing, the problem does not lie in a person's right to personal possession, which was clearly defined by John Locke (and many great thinkers before him). A problem arises when personal possessions take over man's freedom, his dignity, when man is overwhelmed by greed, gluttony, and arrogance, when he is confident of being the center of the world with his economic power.

Entangled in such slavish behavior, based on one's desires (with frequent absence of reason), man soon starts to lose his basic primal human honor (in the best meaning of the word), dignity, self-respect, thus humiliating himself and disabling relations with other humans. Human greed does not allow any space for trust, cooperation, mutual care for the common good, or solidarity; on the contrary, it increases doubt, mistrust, fear, envy and unhealthy competition, which, unfortunately, often ends only due to external circumstances, like present-day economic and financial crisis.

The discussion on basic ethical hummus (global ethos common to various beliefs and religions) at all levels of social and personal life is therefore more urgent and necessary than ever, if we want to preserve the basic dignity of human life, the fact that man respects himself, keeps his word, does not manipulate others nor allows being manipulated, keeps his personal freedom and self-confidence, self-respect and integrity. If man does not possess these qualities he is in no position to create genuine relations with other humans, based on trust and honesty, rising above his pragmatism, calculability (jealousy and envy), and his thirst for various manipulations. We must not forget that ethics does not begin somewhere out there, in some objectivist procedural rules, it begins in the depth of my heart. The subject is the criterion of an ethical act, its freedom, or, as Aristotle would call it, prudence, together with will and morality, so that I can do what is good and right, even though it is often

demanding and difficult. Submitting oneself to likeability and populism or pragmatic calculability is ephemeral, it takes away man's core and personality, and such person loses himself in his solitude of impersonality and self-humiliation.

Basic Ethical Hummus of Ethical Business to talk about how indispensable ethics is in various areas of life, but unfortunately, it lacks systematic and reasonable discussion on these questions, which could provide some guidance for the changes in mentality and basic human culture in the area of business. The change of mentality cannot occur overnight, but it is better to start late than never. There has been an abundance of professional literature on business ethics from various foreign publishers recently. By reading it, I have been encouraged to add my own contribution which should be understood neither as a set of rules to answer all these questions, nor as a dogmatic system to solve all problems. Far from it. My intention has been to encourage people to consider the need for ethical culture in all areas of life, including business.

A kind of 'global ethos' of honest and just behavior in all areas of life, including business, is a set of basic principles shared by various religions and beliefs. We could claim that the foundation of these principles can be found in basic philosophical and religious views, which have the following axioms in common:

- man can and should never become the means, he should always be the end - human dignity;
- do unto others as you would have them do unto you, and do not do unto others as you would not have them do unto you (the golden rule of reciprocity from the Bible)
- true beauty and joy of being become alive in our relations to other people (common good), and not in our solitude or pragmatic individualism.

At this point, these axioms can be more precisely analyzed in terms of the basic principles of ethical business conduct. These principles, of course, only represent several aspects which should provide some challenge for personal consideration, prudence, and self-questioning about one's own ethical conduct.

The following principles should be broad and adaptable enough to be used with any ethical decisions. The principles are based primarily on Kantian and deontological ethics (it is right to do the right thing).

(1) *Justice;* double obligation: a) not to do the injustice b) to prevent and mend the injustice

(2) *Do no harm:* endeavors not to do harm unto others, exceeding pragmatism and selfishness

(3) *Loyalty:* keeping promises, keeping the given word, not only the formalism of the contract

(4) *Credibility:* lies and manipulations do not last long, they create distrust. The greatness of man is demonstrated in acknowledging one's mistakes, either deliberate or not.

(5) *Liability*: if I do harm to someone I need to mend it. It is extremely unjust and unethical when someone who has caused material damage to another person and thus pushed him to the edge of survival manipulates with legal procedures in order to save his own interests, and makes others look insignificant (the consequence of which are many tragic stories of individuals and families).

(6) *Charity*: sense of solidarity and the common good. Or as put in the Talmud, a poor man does more good to the rich by accepting their almsgiving then vice versa.

(7) *Personal growth:* the importance of self-initiative of the employees, personal pleasure; a company's success grows with the sense of responsibility of all employees towards the company. At the same time, an individual should feel accomplished in his job, he should nurture all dimensions of his life (culture, sports...)

(8) *Gratitude:* being grateful, praising other people and their success. Envy and jealousy belong to the most destructive tendencies, and they destroy interpersonal relationships and man's creativity.

(9) *Freedom:* striving for man's personal freedom and dignity. Freedom includes rights and responsibilities. Naturally, freedom is something completely different from ruthless self-will which is triggered by momentary impulse and pragmatic individualism.

(10) *Respect:* respect towards others, self-respect, forgiving yourself first and then your colleagues if something was done wrong, relationships of trust and integrity, exceeding prejudice; man should never be a means, man presents the end.

1.2. How to make true ethical decisions?

These ten sound-minded principles summarize the obligations and present the starting point for making ethical decisions. The following standpoints, or rather stages in decision making, can help us make wise, fair and prudent decisions.

(1) *Prioritizing*: the question which helps us prioritize is: what are my obligations in this case? For more help, we can add questions like: is it my obligation to be just, not to do any harm, to be loyal etc.? We simply follow the ten above-mentioned ethical principles. Once we answer these questions, it is much easier to decide which principles we should abide by.

(2) *Acknowledging conflicts of responsibility:* the question to guide us in acknowledging conflicts is: which obligations contradict each other? We soon realize that it is of vital importance how we handle the contradicting obligations. Some ways of how to do good are just wrong (a good end does not justify any means)

and sometimes we need to postpone certain actions, reconsider and reassess them.

(3) *Ethical judgement of obligation:* the leading question here is: what is the significance of the contradictory obligations? Sometimes we have to choose between options which are contradictory in themselves. The most dangerous factors in our decision-making are populism and current favorites.

(4) *The choice of ethically feasible options:* we often have to choose between different options, each being difficult and demanding in itself. It is of vital importance that whenever we need to convey an unpleasant piece of news to someone that we do so in a respectful manner, without humiliation or judgement. It is important that the receiver of our message feels our benevolence and good intention.

(5) *The choice of action:* if we considered obligations at the first four levels, it is now time to act, or rather make a decision. The worst thing at this point is to be indecisive, to avoid responsibility, and leave questions to be answered sometime in the future. A person who knows exactly what he wants, a person with a vision, usually has enough courage and strength to make decisions, even though it is difficult to please everyone. Quite the opposite, critical and contrary remarks should be understood as a sign that a person is going in the right direction. Indecisiveness and populism lead to the point when a person no longer encounters either opponents or supporters, he loses his identity and turns into a faceless person.

I sincerely hope these thoughts will stimulate some personal consideration in the field of business ethics, as well as on the level of personal relationships in our society. I am well aware of the fact that this is only one of the possible interpretations of ethics in the world of business. I would like us all to strive for ethical culture, make a step forward in our attitude and particularly in our way of life, when honesty, justice, the common good and solidarity in our mutual relations are considered. If we nurture self-respect, cherish ourselves, keep our word, in short, if we start changing ourselves, then the world around us will start to change as well. Present-day society in our country and around the world represents not only a challenge but an outcry to wake up from our nap of comfort and pleasure, to notice our fellow man who needs material help, or perhaps only wants to be heard in his painful loneliness, crying for human company and understanding, who wants to be accepted and needed in this world… So that he can do something good for his fellow men!

To conclude, let me use the words of a great German writer J. W. Goethe: *'Man's greatest wealth is the courage not to desire wealth.'*

2. OVERVIEW OF MANAGEMENT ETHICS

Management, or managerial, ethics as a broad subject matter deals with the situations managers face in their work lives that are imbued with ethical content. By ethical content, we are referring to issues, decisions or actions which contain matters of right versus wrong, fair versus unfair, or justice versus injustice. That is, these situations are ones with which there may be some disagreement about what is the correct - or ethical - course of action or decision.

When we speak of management ethics, we also need to distinguish between what we are observing managers do today and what they should be doing as ethical managers. The former is often termed descriptive ethics; that is, we would be describing what managers are actually doing in terms of their ethics or their actions and decisions with respect to their ethicality. By contrast, when we speak of what managers "ought" to be doing, or "should" be doing, this is typically referred to as normative ethics. In this chapter, we will be concerned both with descriptive and normative ethics; however, our foremost concern is with what managers should be doing to enhance their own ethics and the ethical climates in their organizations.

Management ethics may be seen as a component of corporate social responsibility (CSR). In the past fifty years, there has been an unrelenting call for businesses to be more socially responsible. That is, there has been a blossoming expectation that business not only be profitable and obey the law, but that it be ethical and a good corporate citizen as well. Thus, it may be asserted that the four social responsibilities of business are as follows: be profitable, obey the law, engage in ethical practices, and be philanthropic, or be a good corporate citizen (Carroll, 1979: 497-505). To be sure, these other responsibilities (profitability, legal obedience, and philanthropy) contain ethical content, but we think it is important to single out the ethical component as one part of what an organization does beyond the minimum. Though society expects business organizations to be profitable, as this is a precondition to their survival and prosperity, profitability may be perceived as "what the business does for itself," and obeying the law, being ethical and being a good corporate citizen may be perceived as "what the firm is doing for others (society or other stakeholders)." In this discussion, we sharpen our focus to the ethical component of CSR and dwell on what this means for managers in organizations today.

3. WHY SHOULD MANAGERS BE ETHICAL?

One might rightly ask "Why should managers be ethical?" Using the frame of reference mentioned above, the short answer would be that society *expects* managers to be ethical and that managers should be responsive to the expec-

tations of society and stakeholders if they wish to maintain their legitimacy as agents in society. From a moral philosophy perspective, managers should be ethical because it is the right thing to do. We should go beyond these simple, but appropriate, answers, however, and point out some other reasons why ethical behavior and practice is warranted. Some of the reasons often given as to why managers should be ethical include the following that are set forth by Rushworth Kidder (1997).

3.1. Ethical issues managers face

When does a manager face an ethical issue? According to Ferrell and Fraedrich (1991: 35), "an ethical issue is a problem, situation or opportunity requiring an individual or organization to choose among several actions that must be evaluated as right or wrong, ethical or unethical." Josephson helps us to understand an ethical issue when he states that conduct has a significant ethical dimension if it involves dishonesty, hypocrisy, disloyalty, unfairness, illegality, injurious acts, or unaccountability. These represent at least two ways of thinking about ethical issues managers face.

Managers today face many such ethical issues and these issues may be grouped according to different levels at which they occur. Managers experience ethical issues at the personal, organizational, trade/professional, societal and global levels (Carroll, 1996: 145-8).

Furthermore, ethical issues may be categorized in a number of different ways. Vitell and Festervand identify conflicts between companies' or managers' interests and personal ethics. In their study, these issues arise between managers and their conflicts with such stakeholder groups as customers, suppliers, employees, competitors, law and government, superiors, wholesalers, and retailers. In terms of specific issues, these same researchers see ethical conflicts arising in these situations: the giving of gifts and kickbacks, fairness and discrimination, price collusion and pricing practices, firings and layoffs, and honesty in communications and executing contracts with investors (Vitell and Festervand, 1987: 114).

According to a major report from The Conference Board, there is widespread agreement that the following constitute ethical issues for managers: employee conflicts of interest, inappropriate gifts, sexual harassment, unauthorized payments, affirmative action, employee privacy, and environmental issues (Berenbeim, 1987: 3). In this same report, CEOs reported specific topics which constituted ethical issues for them, which were categorized as follows:

- *Equity:* Executive salaries, comparable worth, product pricing
- *Rights:* Corporate due process, employee health screening, privacy, sexual harassment, affirmative action/equal employment opportunity

- *Honesty:* Employee conflicts of interest, security of employee records, inappropriate gifts, unauthorized payments to foreign officials, advertising content
- *Exercise of corporate power:* Political action committees, workplace/product safety, environmental issues, disinvestment, corporate contributions, closures/downsizings

Finally, Waters, Bird and Chant (1986: 375), provide us with insights into what managers consider to be ethical issues based on their research using open-ended interviews with managers in a variety of organizational positions. In response to the question "What ethical questions come up or have come up in the course of your work life?" the following ethical, or moral, issues were identified most frequently:

- With respect to *employees:* feedback about performance and standing; employment security; appropriate working conditions
- With respect to *peers* and *superiors:* truth-telling, loyalty and support
- With respect to *customers:* fair treatment, truth-telling, questionable practices, collusion
- With respect to *suppliers:* fair/impartial treatment, balanced relationship, unfair pressure tactics, truth-telling
- With respect to *other stakeholders:* respecting legal constraints, truth-telling in public relations, stockholder interests

3.2. Ethical decision making

We have alluded to the importance of ethical decision making, but it is useful to treat it briefly as a distinct topic. Decision making is at the heart of the management process.

If there is any act or process that is synonymous with management, it is decision making. Though there is a need for improved managerial performance in the private and public sectors, there is a special need for improved ethical decision making by managers. Petrick and Quinn (1997: 24-5) state five reasons for managers to improve their ethical decision making:

(1) The costs of unethical workplace conduct

(2) The lack of awareness of ethically questionable, managerial, role-related acts

(3) The widespread erosion of integrity and exposure to ethical risk

(4) The global corruption pressures that threaten managerial and organizational reputation

(5) The benefits of increased profitability and intrinsically desirable organizational order.

In the academic literature, there is much written about ethical decision making, including the use of models of ethical decision making. Most business ethicists would advocate the use of ethical principles to guide organizational decision making. A principle of business ethics is a concept, guideline, or rule that, if applied when you are faced with an ethical dilemma, will assist you in making an ethical decision. There are many different principles of ethics, but an extensive coverage of them is outside the scope of this chapter. Suffice it to say here that such useful principles include the principles of justice, rights, utilitarianism and the golden rule (Buchholz and Rosenthal, 1998). The basic idea behind the principles approach is that managers may improve the quality of their ethical decision making if they factor into their proposed actions, decisions, behaviors and practices, a consideration of certain principles of ethics.

A very practical approach to ethical decision making has been suggested by Laura Nash (1981: 80) who argues that there are twelve questions managers should systematically ask in a quest to make an ethical decision:

(1) Have you defined the problem accurately?

(2) How would you define the problem, if you stood on the other side of the fence?

(3) How did this situation occur in the first place?

(4) To whom and what do you give your loyalties as a person, and as a member of the corporation?

(5) What is your intention in making this decision?

(6) How does this intention compare with the likely results?

(7) Whom could your decision or action injure?

(8) Can you engage the affected parties in a discussion of the problem, *before* you make your decision?

(9) Are you confident that your position will be as valid over a long period of time as it seems now?

(10) Could you disclose without qualms your decision or action to your boss, your CEO, the board of directors, your family, or society as a whole?

(11) What is the symbolic potential of your action if understood? If misunderstood?

(12) Under what conditions would you allow exceptions to your stand?

Another set of useful questions to aid ethical decision making has been offered by Blanchard and Peale (1988). They recommend that managers ask

these questions before making a decision, and they call these three questions the "ethics check."

(1) *Is it legal?* Will I be violating either civil law or company policy?

(2) *Is it balanced?* Is it fair to all concerned in the short term as well as the long term? Does it promote win-win relationships?

(3) *How will it make me feel about myself?* Will it make me proud? Would I feel good if my decision was published in the newspaper? Would I feel good if my family knew about it?

Obviously, the "wrong" answers to the above questions should move the manager into reconsidering his or her decision.

4. SUMMARY AND CONCLUSIONS

Human dignity is the first principle. The Universal Declaration of Human Rights says in its first article: 'All human beings are born free and equal in dignity and rights. They are endowed with reason and conscience and should act towards one another in a spirit of brotherhood.' These obvious rights are very often forgotten and should therefore be constantly reminded of. Human dignity is invaluable and should be well-respected. If we combine this principle with business ethics, we must be aware of the fact that the primary goal of each business corporation is man's well-being and not constant striving for profit. There is nothing wrong with profit in general, of course, as it is necessary for the realization of business opportunities, but we must also be aware that profit only represents the means for reaching a higher end, which is the fulfillment of human needs. Even though the structure of our society is hierarchical, every job is intended to fulfill human needs. We were given talents which we can use to improve our living conditions and thus lead a fuller and more creative life. Problems in our present-day structure occur when the objectivistic views and evaluation of work put man as the end aside, thus transforming humans into the means in service of economy and man's deadly desire for profit. Our work affects our human characteristics, which is why we must be cautious about acting rationally, so that our planning and decision-making do not hinder our development and self-realization, but rather help us progress. However, every decision we make has an impact on wider society, which is why we should always ask ourselves: Does my decision respect other people? Does it not humiliate them or transform them into the means of modern slavery?

The second principle is the principle of the common good. The common good is what enables trade and state, it is the result of our mutual relations, the broadness of heart and mind which helps us exceed bare survival, gain creativity and cooperation. Our society has a moral obligation towards its members to ensure conditions in

which each individual can develop his or her full potential. Only by developing one's full potential, an individual can contribute to the common good of the entire society. From the standpoint of business decisions, company managers have a moral obligation to consider the consequences of their actions in their decisions and foresee the impact of specific decisions upon their company and its shareholders, as well as upon the wider society and humankind in general.

The principle of fair and responsible management of goods and property. The primary goal of our lives should not be constant striving for material goods. We often forget that material goods are only the means in service of man, who should be accomplished in different areas and at different levels of his life, from physical and cultural to spiritual. Moderation is important, as well as man's proper attitude towards material goods and wealth, or as Oscar Wilde once put it: 'If property had simply pleasures, we could stand it; but its duties make it unbearable. In the *interest of the rich* we must *get rid of* it.' Even though material goods provide profit and money, which is important, they only represent the means to live a fuller life. In our lives, we should not be fixed upon gaining more and more things. We should not exploit our environment without any consideration whatsoever, as our actions can have disastrous consequences on the entire humanity today and in the future. It is our moral obligation to use natural resources responsibly and with consideration. We should avoid overexploitation of natural resources with moderation and reason, and we should cause as little environmental pollution as possible, which would consequently lead to fewer natural disasters.

The principle of subsidiarity includes an individual's attitude towards various state and international institutions. The task of these institutions is to support and protect the first three principles. However, they need to renounce those activities which would affect the autonomy of the individuals, families, or the entire nation. In a broader sense, the responsibility of an individual is to recognize the needs of his domestic environment and to act accordingly. International and state institutions should not interfere with the activities of the local communities, if these fulfill their duties and manage to solve their own problems. They have the right and obligation to interfere only when the autonomy of a particular society does not respect the basic human rights and presents a threat for other countries in different areas of cohabitation on our planet.

The option for the poor as the fourth principle means that it is our moral obligation to estimate the economic and social activities from the point of view of the most disadvantaged members of our society. From the point of view of business ethics, this would mean that it is the moral obligation of large corporations to work in favor of the most vulnerable members of society. They need to realize that their decisions have a strong impact on people, globally and not only locally. Some corporations view their employees only as a means, exploiting the fact that there are many people at a global level who are prepared to work for minimum salary. Thus, the corporations

humiliate their own employees and practically enslave people in poor countries, who do their jobs for considerably lower salaries. This is the violation of basic human rights and exploitation, the goal of which is the desire for bigger profit and manipulation of man, who is thus reduced to the instrument level.

The principle of solidarity is firm determination to work for the common good. It is demonstrated in recognizing other people's needs and striving for changes and long-term improvement. 'Wealth is evidently not the good we are seeking; for it is merely useful and for the sake of something else,' Aristotle wrote. Solidarity includes relations between those who give and those who receive. It is not pity, it is acknowledging that we build mutual relations and we are all responsible for the common good. Our decisions and choices should protect not only our interests but the interests of others as well. It is vital that our freedom or ruthless self-will does not threaten the freedom of our fellow man.

The desire to work well and with honesty and keep the given word

Business managers care for relations between various interest groups: owners, employees (including managers), customers, suppliers, investors, and the entire business environment.

REFERENCES

Aguilar, F. J., *"Managing Corporate Ethics: Learning from America's ethical companies how to supercharge business performance." New York: Oxford University Press. 1994.*

Abagail W., et al., The Oxford Handbook of Corporate Social Responsibility. New York: University Press, 2009.

Barrera, Albino. Economic compulsion and Christian ethics. Cambridge University Press, 2005.

Berenbeim, Ronald. *"Corporate ethics." Conference Board,* 1987.

Blanchard, K., and N. V. Peale. *"The power of ethical management,* New York: Fawcett Crest, requoted by Rabindra N. Kanungo and Manuel Mendonca, 1996, Ethical Dimensions of Leadership." (1988)

Buchholz, Rogene A., and Sandra B. Rosenthal. *"Business Ethics The Pragmatic Path Beyond Principles to Process." (1998)*

Business Week March 11, 1996. Lou Harris & Associates Survey, 1996.

Carroll, Archie B. *"A three-dimensional conceptual model of corporate performance." Academy of management review 4,* no. 4 (1979): 497-505

Carroll, Archie B. *"In search of the moral manager." Business Horizons 30,* no. 2 (1987): 7-15

Carroll, Archie B. *"The pyramid of corporate social responsibility: Toward the moral management of organizational stakeholders." Business horizons 34,* no. 4 (1991): 39-48

Carroll, Archie B. *"Stakeholder thinking in three models of management morality: a perspective with strategic implications." Understanding stakeholder thinking (1995): 47-74*

Carroll, A. B., Business and Society: Ethics and Stakeholder Management, 3rd edn. Cincinnati: South-Western Publishing Co./International Thompson Publishing. 1996.

Crane, Andrew, and Dirk Matten. *"Business ethics: Managing corporate citizenship and sustainability in the age of globalisation." Aufl.,* New York (2010)

Ferrell, Odies C., and John Fraedrich. Business ethics: Ethical decision making and cases. Houghton Mifflin College Division, 1991.

Jones, Del. *"Doing the wrong thing: 48% of workers admit to unethical or illegal acts." USA Today 1 (1997)*

Kidder, R. *"Ethics and the bottom line: Ten reasons for businesses to do right." Insights on Global Ethics (1997): 7-9*

Milbank, John, and Adrian Pabst. *"The Politics of Virtue: Post-Liberalism and the Human Future." (2016)*

Nash, Laura L. *"Ethics without the sermon." Harvard Business Review 59,* no. 6 (1981): 79-90

Paine, Lynn Sharp. *"Managing for organizational integrity." Harvard business review 72,* no. 2 (1994): 106-117

Petrick, Joseph A., and John F. Quinn. Management ethics: Integrity at work. Vol. 6. Sage, 1997.

Vitell, Scott J., and Troy A. Festervand. *"Business ethics: Conflicts,* practices and beliefs of industrial executives." Journal of Business Ethics 6, no. 2 (1987): 111-122

Waters, James A., Frederick Bird, and Peter D. Chant. *"Everyday moral issues experienced by managers." Journal of Business Ethics 5,* no. 5 (1986): 373-384

Williams, Oliver F., ed. Business, religion, & spirituality: A new synthesis. Univ of Notre Dame Pr, 2003.