A MODERN CORPORATE DILEMMA... BUSINESS ETHICS

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Abstract
Business ethics is an academic field and a complex and controversial subject of current debate. It appeared from the need to regulate the growing power and influence of corporations on society as a whole and to compel immoral policies, common in the business environment, which may affect, sometimes irreparably, individuals, communities and the natural environment.
Today, businesses are characterized by competitiveness, being pursued the competitive advantages specific to the market economy, such as better and more varied products and services, innovation, diversity, development etc. However, the current context does not help too much the entrepreneurs to understand the nature of economic competition and the need for cooperation.
This paper aims to present the practical opportunity of business ethics theory, given that capital owners are more concerned with profit maximization rather than moral responsibilities toward people around, because they consider these duties as idealistic and unnecessary.

Key words: business ethics, economic environment, responsibility, performance
Jel Classification: M14, O16, P10

Introduction

Morality of business and corporate activities has been and is constantly questioned by the public, being discussed the main objectives of companies: exclusive satisfaction of shareholders' interests or general welfare of the community?

Decision-making authority and responsibility are increasingly dispersed in the companies being involved in making decisions more and more hierarchical levels, so each employee, not just the top management must know and understand the variety of ethical issues, the organization's values and goals and their reflection in economic behavior.

Business ethics has become, in the last years, a concern for the academic environment, in most European universities being introduced courses in this area. Also has increased the number of articles published in magazines, and in press on this issue. Into large corporations there are directors on ethical issues (*corporate ethics officers*), also appeared several independent consultants, being increasingly present on capital markets the *ethical investment trusts*. A significant authority and influence in the area have the activities of auditing, monitoring and ethics evaluation, developed by prestigious companies such as KPMG, McKinsey, PriceWaterhouseCoopers and others.

1. The theory of business ethics concept

The concept of business ethics has emerged and developed rapidly during the northern United States, from where it then spread to all developed countries where there is market economy and rule of law. In Europe, the notion entered through the UK since the 1980s. Business ethics is currently an area that would like to clarify the moral issues arising from economic activity in a capitalist society. One can not speak about a clearly and universally accepted definition, and the interpretations of this term vary from one author to another.

R.T. De George, one of the incumbents in this matter, regards business ethics or as implicit in economic conduct or explicit for a company or an entrepreneur. About a company it can be stated that although in some cases apparently promotes ethical and responsible actions in community service, environmental damages reveals its real convictions.

P.V. Lewis contradicts De George's statements, defining business ethics as an ensemble of principles to govern the business conduct, individually or collectively. More precisely, he refers to limit those things that economic agents should not do and to promote those actions that the business environment wants from them.

Roger Crisp, an acclaimed philosopher and editor at Oxford, has a different outlook on business ethics, as a field of philosophical investigation, with specific issues and topics for discussion, experts and publications. According to Crisp, business ethics aims to assess and support the rational arguments and moral values that would govern the economic system to help improve moral business environment practice.

Business ethics is based on several theories developed after 1980, namely *virtue ethics*, *utilitarianism* and *ethical duty*, under which economic agents are primarily concerned with maximizing their business, but that does not mean that the morality of their activities does not concern them.

With the growth of capital markets and stock exchange operations has intensified the involvement of the increasingly numerous groups of *shareholders*, more and more people becoming shareholders in listed companies and the currents of opinion which advocates for civil rights begin to be reflected in management strategies. If the initial movements of consumers were related to quality and price of products and services, currently is intensifying what it is called *vigilante consumerism*, an action to boycott products obtained through polluting technologies and of the workforce abusive exploitation. After 1985, in the United Kingdom has emerged the movement called *ethical investment*, which promoted "moral investments", and penalized companies with questionable behavior by refusing to invest in their activities. Into the United States was expressed, almost immediately, a similar attitude so that institutional investors have begun on their turn to withdraw support for companies with bad reputation. Minority shareholders were no longer limited only to protest by selling the shares held, but they were more actively involved in management decisions through their right of veto against those actions which they didn't considered ethically correct. Expansion of American companies capital outside the United States, has led to increasing concerns about business ethics, so that global companies are even more valued based on the criterion of moral quality of commercial and management strategies.

Raising interest in business ethics is determined by transforming business environment in the context of globalization, cross-border firms becoming more complex and dynamic. So, appear new problems, and value-normative certainties of local business communities are replaced by relativity of a multinational and multicultural context where moral correctness criteria vary and change (too) quickly. The growing importance of business ethics is explained by changes in corporate strategies and structures. Recent trends in theory and managerial practice, such as *total quality management*, and restructuring processes of top companies have led to abandonment of many traditional management practices of business processes.

Business relations are essentially bilateral, so that cooperation and not competition should characterize business and context of the cooperation underlies many obligations that an entrepreneur must take. The activity of a company would not be possible on long term if there is no cooperation between shareholders, managers and employees, and moral values underpinning this cooperation should always be considered in decision making. In a rational approach, self-interest is better served by a cooperative attitude than one consistently aggressive. Economic competition is based on cooperation between shareholders, managers, employees, customers, suppliers and even competitors. A healthy business environment is governed by rules that ensure benefits for all participants. Some are even the juridical rules, considered mandatory for everyone, but the law does not provide clear and undeniable solutions for all situations, which occur in commercial relations. When the law can not rule, morality is the only guide in making the best decisions. For a trader it is easy to understand that he must meet certain moral obligations to his customers and suppliers, being interested in their loyalty in order to not fracture the continuity of his activities. But equally, it is difficult to understand that he must take responsibility also to his competitors. Should be taken into mind that competitors have common interests upon some mutual obligations imposed by the nature of competition, essential for solving conflicts of interest that normally occur between competitors.

Another important aspect that treats business ethics is *distributive justice*. This concept has a significant relevance in economic and political theory and ethics in recent decades. The principle of distributive justice states that rewards within a company must be proportionate to the contributions of each participant in achieving its objectives. This principle works both as a mechanism for allocating benefits and as a criterion for selection and promotion of employees, thereby motivating them to continue the objectives of the entity.

2. Corporate social performance – a result of ethical norms

Corporate social performance is a basic concept in the fields called business *ethics* and *business and society*. It is defined as the basic interaction between the principles of social responsibility, the social reaction process and policies developed to solve specific problems. Another definition involves setting up an organization's principles to act towards society, how are perceived the reactions coming from this, respective the policies, programs and observable outcomes associated with relations between the company and society. The concept can be interpreted as a progressive product of thinking maturation about corporate social responsibility (CSR), which justifies the need for consideration of such issues in strategic decisions, but also reflect the impact on financial performance.

Friedman was declared against the concept of corporate social responsibility, based on three main arguments:

- *Only people can be morally responsible for their actions*. Thus, corporations as a whole can not assume moral responsibility for the consequences of their activities. But, it must not be forgotten that these are composed by people and they, through assuming responsibility of their actions, can contribute to responsible behavior of companies.
- *The only responsibility of managers is to act in the interests of shareholders*. In this view, managers should only be limited to justify their position, they being employed by owners to protect and enhance the fortune of those. Pursuing any other purpose represents abandoning responsibility and even the financial harm of the shareholders.
- *Social problems are the responsibility of state and not of corporations*. According to Friedman, managers should not be concerned with the interests of the community, because they are not prepared to pursue social issues, which should do politicians, company owners need people specialized exclusively in economic and financial area, concerned only in their property administration.

When corporate governance is considered exclusively from the perspective of shareholders, comes seemingly at odds with the notion of CSR, because it involves commitment to a wider variety of stakeholders and not only to the owners. Instead, when viewed from the perspective of stakeholders, it overlaps with the CSR, but there is still no consensus on how corporate governance and social responsibility should be articulated as a whole. The main conception of specialists in business ethics is that members of a society have different material needs that the economic environment must meet through activities of production, services, distribution, allocation, etc. Comparison between the perspective of "enlightened" selfishness and the view of "contractualiste" ethics, shows that at microeconomic level the conceptual framework is quite limited, and the business is seen only as a private enterprise operating on market economy, with the sole aim of maximizing profit, respecting the legal norms. By default, only moral obligations of management are related to increasing long-term owner value, and considering the interests of different categories of stakeholders is required only to the extent that it can help to maximize profit.

Initially, the concept of corporate social performance has focused on reducing the harmful effects of industrial operations, but was extended to the speeches on sustainable development. The business environment, government and civil society should cooperate in dealing with social and environmental challenges related to industrial operations and associated relationships, forming a voluntary partnership to promote sustainable development through constructive cooperation, and mutual practice.

The first researches in this regard focused on developing theoretical models to measure CSP. From the empirically point of view, the reliable evaluation systems represent a key component in developing CSR activities. Emergence of social rating and analysis organizations is a response to this need and, in particular for all socially responsible investment requirements. Academic studies that have used such ratings, have identified a possible link between social performance and financial companies. But there isn't a consensus definition for social analysis concept, the word "social" being understood, by some authors, more broadly (including environmental dimensions) or narrowly (the social ones).

The activity of social analysis and assessment involves two main categories of methods: first, based on a quantitative approach, trying to imitate the method used for financial evaluation (scoring method) and second, qualitatively similar to the audit process (audit methodology). In the first case, the analysis is primarily based on available public information, existent annual reports of companies, using an approach in three phases: data collection (primary and secondary data collection on social behavior), scoring (quantifying the primary data by analysts in a comparison of entities within each industry) and ranking (classification of firms in each sector based on previous results). In the second case, evaluation is an audit process, in an area bounded by the company, through observations on site, internal documentation and a series of interviews with various members of the management team and representatives of other stakeholders (unions and NGOs), in order to achieve triangulation of data and to detect any inconsistencies. This methodology requires more time than the first one and the work of experienced auditors. Various terms are used to describe the final product of this process: analysis, evaluation, etc. The scoring methodology is intended for all managers, whether or not directly involved in CSR policies or interested in extra-financial information.

Social performance measurement is an important element in developing new accounting forms. Accordingly, accounting must be understood in a broad analysis or evaluation – financial or social – and not in the small (really narrow) of the process expressing in figures a set of phenomena.

3. Ethics, accountability and profit

Milton Friedman published in 1970, an article in the New York Times Magazines, "The Social Responsibility of Business is to Increase Profits", which began a debate that still continues today. He said that the responsibility of a company is to use its resources and to engage in activities designed to increase profits. He was part of the right realists category, claiming that the desire for profit is the only that justifies a business and which can motivate the rational man and that all moral considerations are irrelevant in economic conduct. By contradiction, left egalitarians believed that affairs are a factor harmful to society, that profit is immoral and that everyone should be equally paid. According to them, immoral effects arising from the fact that the economy is left to operate on its natural rules.

Two decades later, there were different assumptions and arguments which show that Friedman's views can not be taken into account in the current business environment. Have remained however supporters of him who do not consider that the desire of a growing profit in a little time, is a proof of greed or selfishness and altruism or philanthropy have no place in a serious business. It is true that profit constitutes the legitimate aim of any business and, failing that, an economic entity loses the sense of being, but this fact (real and undeniable) should be sparingly seen and the taken actions to consider also the ethical considerations. Equally true is that "art of business" is teached and learned on the principle that selfishness is a virtue natural and legitimate, confirmed by the economic model of profit maximization. Only in recent years have started to appear specialized studies to test the relationship between ethics and profit, but still not able to fully convince business environment that the two concepts are not in opposition but rather complementary.

Currently, given the demands of investors, communities and the public at general, large organizations have more extensive portfolios of multiple responsibilities. Therefore, managers are so concerned about maximizing profits for owners and shareholders, and for respect the legal framework, increasing the professional quality of employees, but also the working and living conditions, to demonstrate interest in social policies directed to the communities in which they operate. They aim, in fact, reducing potential negative impact on business caused by social discontent and not the manifestation of personal beliefs.

To improve economic performance, organizations can make a connection between their formal structures, in accordance with institutional and informal rules, which provides the framework for action. Social analysis and rating agencies play a decisive role in the implementation of CSR within companies, as a true mediator between individuals with divergent views. Developing a perspective regarding the integration of governance and corporate social responsibility as an ethical imperative, has been gaining ground in business, but still has to go several steps, requiring more work linking the two areas. The following figure (Figure no. 3.1) shows how the system should be organized in accordance with corporate governance requirements of internal and external environment of the company, regarding the integration of financial interests, in ethical and social activities.

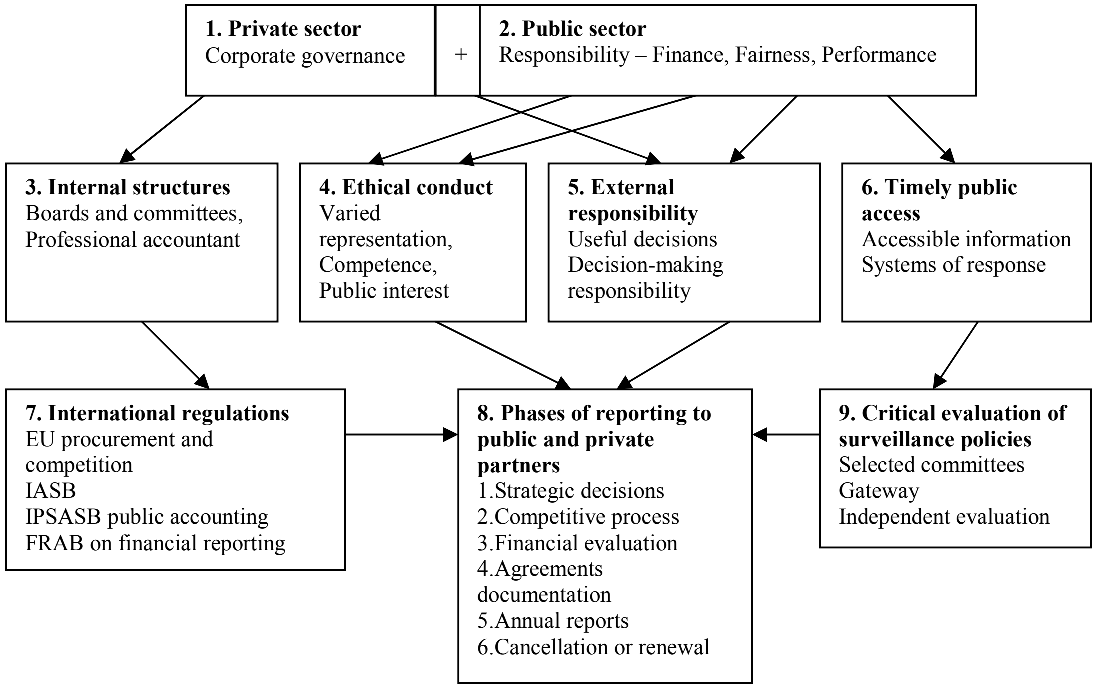

Figure no. 3.1 – The corporate responsibility

Source: Shaoul, J. et. al. (2012), "Accountability and corporate governance of public private partnerships", Journal Critical Perspective on Accounting, Vol. 23 (3), pp. 213-229.

Acceptance by the public and private sector, by the business and academic environment of the need for a "social contract" to govern trading and human relations – within company (management-employement) and outside them (management-business partners, company-civil society) – would show that individual interest is subordinated to the social welfare level. A macroeconomic structure, with an interactive feedback mechanism and norms to encourage changing those things and facts that contradict the economic and social interests should justify higher profits, in compliance with ethical rules and not in their absence.

Several recent studies attempted to analyze the relationship between accounting quality and effectiveness of capital investments. The first hypothesis is that a high quality level of accounting system should increase investment efficiency by reducing information asymmetry between managers and external suppliers of capital. As mentioned before, information asymmetry or liquidity constraints may generate excess cash. Both cases give rise to problems of inefficiency in the investment, which would be mitigated by accounting quality.

Some studies examine the role of corporate sector in promoting rural development and the challenges of using available resources and involvement in local development issues, given the communities affected by industrialization. The private sector should not overlook the fact that its activities are also of public interest, insofar as these affect the substance of limited resources and community sector capacity. Usually, large corporations are present in rural areas where there is an abundance of natural resources required by extraction and processing industries. Will result benefits for corporations, through the financial results obtained, the establishment of important business relationships and strengthen of specific market, but also for the community by creating jobs, developing the potential of the area and increase the welfare of life. However, should not be forgotten respecting the human beings, both in terms of employees (decent conditions of work, adequate salaries) and people living near the mining area (monitoring and reducing air, soil and even sound pollution). At the same time, especially in the case of non-renewable resources, the corporation must ensure their recovery in an advantageous way not only for itself, but also for the community. Thus, good governance must take into consideration, besides economic impact of a business and the natural and social ones.

Despite the requirements of sustainable development, leading to the concept of corporate social responsibility, most companies are limited in this respect, only to support traditional forms of community through the provision of services in its own, sponsoring events or direct cash contributions. This form of corporatist good will represents the generally speech of global capitalism based on the confluence to do good business and to do well, that gives the impression of compassion for which the community should be grateful to the company, the latter forgetting that without community inputs (the resources, manpower, etc.) it can not survive.

(Instead of) Conclusions

Contemporary modern enterprise needs to ensure a social policy that should be integrated in the social environment in which it operates, succeeding to transform its own social policy benefits in sustainable economic effects. At the opposite pole are those entities that aspire to higher short-term gains, but can not consolidate a long-term market. Moreover, practice has proved that speculative business are leading to tensions in the relations with the social environment, resulting in loss of customers and even business liquidation. Economic prosperity can not exist without respect and concern for people, environment or community as a whole.

Modernisation of economic environment, but also the social one, made the current governance system to not only take into consideration the need to inform the shareholders, but also their satisfaction, the company's ability to respond positively to the new market restrictions, the relationships established with external agencies, employees, general public, etc. Economic or profitability criteria are no longer sufficient to analyze an enterprise, adaptability and responsiveness, ethical and responsible attitude towards the economic and social environment become increasingly important factors for business development. Lack of trust forms a barrier to investment, leading to a high cost of capital and reducing the efficiency of resource allocation. Information and transparency provides all stakeholders the best economic performance assessment, but also managerial, analysis' results decisively influencing the future behavior. The new economy recovers more and more also the best practices on ethical standards governing the relationships between various business partners.

Adopting a much broader perspective, theories that define macro scale businesses need a larger conceptual framework in which to shape a variety of social obligations which affairs to take on by virtue of functions and social roles defined through the "social contract" between entrepreneurs and civil society. However, there are still plenty of skeptics challenging the reliability and timeliness of business ethics and the capacity of this concept to intervene in the behavior of economic agents.

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