

## **BUSINESS ETHICS AND ITS INFLUENCE ON EMPLOYEE RELATIONS**

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**Abstract:** *Business ethics concerns the issues and cases concerning all the business stakeholders, and in this paper the focus is on employees in organizations. Different cases of business ethics can represent both positive, ethical behavior, and also negative, unethical behavior. Negative examples are related to issues such as mistreat of the post, bribery, insider trading, hiding or selling information, non-effective completion of the given tasks or mobbing. When it comes to positive work behavior, employees are usually led by ethical codes, which promote friendly behavior, cooperation, openness, teamwork, unity, mutual support, loyalty. In big companies, support and protection of the employees when dealing with ethical issues is usually provided by syndicates, but individual initiatives and communication through Intranet or social networks, company's newspapers and company's internal radio stations, can also be effective. In this paper, we present examples and solutions of positive and ethical behavior in companies emphasizing that they affect learning, awareness, sensitivity and recognition of business ethics.*

**Key words:** *business ethics, employees, ethical behavior, ethical code*

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### **1. INTRODUCTION**

**E**thics provide a guideline for desirable business behavior affecting all the people in organizations. It is a framework providing guidance for conduct of all the stakeholders in the company. Ethics provides a perspective of the business world through the eyes of common people. It is based: people all have the same needs, rights and aims in life. This is the main reason why people gather around an idea of the leader and that is just the moment when new organizations appear. „Ethics is a systematic study of the generally-held (or conventional) morality of a society aimed at determining the rules which *ought* to govern human behavior, the rules that a society *ought* to enforce and the virtues worth developing in human life.“(De George, pp. 343).

The main goals of business ethics, that are at the focus of this paper, are that the good and positive actions that can be initiated by individuals, should be integrated within the norms and principles supported at the level of the company, branch or at the level of national economy. Business ethics is something an individual carries in him but is also coordinated and adjusted to the ethical standards that are common in a society. Business ethics comprise the ethical codes of individuals which they inherited, and acknowledged in the early stages of life, adjusted in the different periods of development of themselves and of the society as a whole and the ethical standards they face when they meet with the organizational codes, rules, tradition, culture and climate. (De George, pp. 348)

Business ethics has experienced changes over time, but its foundations in the works and philosophical studies of Aristotle and Kant, had not changed. This means that values such as

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duty and rights presented by Kant, the consequences of actions presented by utilitarians, the placement of virtues in the business world as presented by Aristotle, are timeless.

„Business ethics has developed and expanded as business has developed and expanded.“ ( De George, pp. 344, 351) As business ethics developed, there were many discussions on ethical behavior of the company. For example, if the company is making a donation, in what specific domain should it be? The decision is based on the intention of making good to the society and this is a socially responsible act of the company, but there are often disputes about making priorities in the donation process. The answer to all these questions are found within a well balanced business ethics code of conduct where the different socially responsible acts should be assessed in relation to their contribution to the stakeholders' needs, for setting the priorities.

Corporate Social Responsibility (CSR) is based on doing well for the benefit of the community and society as a whole. Some of the dilemmas in this sense are more of a philosophical than practical nature, ”It seems prudent to manage risk. This is certainly true if the only alternative is a return to the superstition and blind acceptance of fate that Bernstein describes in *Against the Gods*.“ ( Boatright, J.R. pp. 476) The superstition is certainly out of the question when it comes to CSR, but the religion has many theories common to ethical views and considerations.



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**2. BUSINESS ETHICS DILEMMAS: A CONTEMPORARY EXAMPLE IN THE CONTEXT OF HISTORICAL BUSINESS ETHICS CONSIDERATIONS**

At the beginning we present a hypothetical example, reported in many situations in practice today, as an illustration of the need for ethics in organizations facing potential public scandals.

To illustrate the necessity to incorporate ethical principles in business, we analyze a situation of potential loss of good reputation of a company due to unethical behavior. We present a case of an employee in a big company who had a rare bone disease and needed the sum of 30.000 USD for the operation. He gathered one part of the money from his savings and from relatives, but the company refused neither to allow him paid absence nor to guarantee his return to work after the surgery. The employee was familiar to his co-workers for his outstanding performance in the company since he had been employed in the company for a

long time. Also they appreciated his willingness to always help the others. For these reasons his closest colleague, who knew him best and shared the office with him, decided to help him. He informed the others through Intranet and asked for help. At the same time he started collecting money and started a petition to keep him on the job threatening to go public. More than 60% of his colleagues answered his call, gave money and signed the petition. Chief Executive Officer (CEO) of the company was forced to give in to the demands after facing the mass response of the employees. The CEO initiated a meeting with the worker, allowed him a paid relief and promised that he would keep his job after the operation.

This is an example of how the initiative of the workers' based on ethics can change the unethical practice in some companies, in the light of the threats that these companies could be facing if this unethical practice would be publicly announced. That was the workers' way of saying that they will be united against unethical behavior and that their voice in these matters is always to be respected. Also it shows that the executives will lose each time when they try to impose unethical practice.

The example also points to the differences in the approaches of the „ethics-in-business“ and „business ethics“. The ethics in business approach for the most part was concerned with scandals and abuses that came to public's attention, while "those in business ethics examined the structure of capitalism and the structures of business, sometimes articulating the underlying moral justification of existing structures and practices and sometimes criticizing them from a moral point of view and arguing for change.“ (De George, pp. 347-348)

Adam Smith in his book „A Theory of moral sentiments“ (De George, 2014) wrote about the sentimental dimension in organisations and the lack of it among businessmen. He wrote about the moral obligation of business leaders to consider the sentimental value of the employees and their need to be human and just, to help each other and to see the other side of the cruel, non ethical profit making practices. He recommended leaders to be rightful and objective towards their employees and that they have to strive for their confidence and loyalty. „Karl Marx developed the most trenchant attack on what he termed capitalism, a period of history which he considered necessary and in which he admitted human productivity developed more than during any other period. For him the problem with capitalism was that most of the benefits were repeated by the few, when there was enough to better the lot of all.“ ( De George, 2014, pp. 339)

In the example presented, we can see that to respect ethical norms of conduct for the company meant just a small investment in comparison to the potential great loss that they would face with public involvement. The CEOs, left to their individual judgment and decisions, weren't even ready to promise the worker that he would keep his job, although he was a good, loyal worker, hardworking and never misused his post. The example presented shows also that ethical norms are strong and are to be respected in all companies, no matter what country or system they belong to.

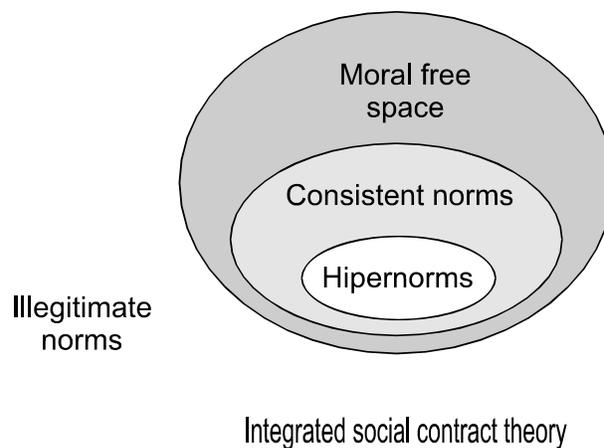
It is emphasized that ethical principles and laws in business are stronger and more universal than the circumstances and systems in concrete countries and companies. Marx's critique of exploitation, his condemnation of making commodities more important than people and of judging people by what they have instead of what they are, resonates even in American culture.“ (De George, 2014, pp. 340)

The other theoretical approach to ethical business is concerned with religious norms and attitudes that are appreciated by businessmen. That is the main reason why ethical values, e.g. helping others, not doing any wrong to others, not doing to other what you would not want to experience or suffer from, etc., are at the core of all the religious and philosophical norms and principles that lasted throughout the years and never changed. „Many business people live their business lives guided by their religious moral beliefs, and many of those affected by business practices evaluate them in same light.“ (De George, 2014, pp. 340) This is the universal reason why helping individuals, donating money to hospitals, schools, churches and others in need are the basic line for organizational sustainability.

### 3. ETHICS AND RISK MANAGEMENT

When people believe that their working environment is ethically right, the probability of them staying in that company is six times bigger than when they believe that ethical principles in the company are not respected. (Williams, C., pp. 59) This illustrates the need of employees for fairness and justice in their company.

The moral space in a society is looked upon as set of different norms. The next Figure shows how the integrated social theory defines different norms.



Source: Business ethics and values, Fischer, C. et al, Pearson, 4. Ed., 2013., P. 430.

As shown in the Figure, the moral space in society is partially covered by the norms designated as hyper norms and consistent norms. Outside of this is the illegitimate norms space. The definitions of different norms presented in the Figure are as follows:

1. Hyper norms are the ultimate norms that are common and applied in all nations, at all Meridians, in every country from the emergence of ethics up to nowadays.
2. Consistent norms are norms that are shared by most of the society, whereas in some parts of the world they are unknown.
3. Moral free space is more considered at the local level and relates to the policies such as the use of child labour in multinational companies.
4. Illegitimate norms are absolutely unacceptable by some societies while in some other they are dominant. They can be completely opposite and differ from one country to another. (Fisher et al, pp. 430)

When looking at consequences of negative, unethical behaviour in companies, moral liability is one of the issues that arise. „Moral liability occurs when corporations violate stakeholder expectations of ethical behaviour in ways that put business value at risk.“ (Clarke, T., pp. 417) Employees are the most valuable and the most important resource of the company, but they are also one of the most precious stakeholders since they can also be shareholders, members of the shareholders' committee and members of the syndicates. They include three functions and three stakeholder positions- employees, syndicates and shareholders. Even the ex-employees and pensioners can influence the organization by recommending new staff, lobbying and providing information for the company. That is the reason why the company should invest in its staff, include more employees in decision making, involve them in creative problem solving and foster their creativity and innovativeness. Many techniques of participatory management and for fostering creativity are now present in companies, such as brainstorming for gathering new ideas, quality circles, continuous improvement, etc., all based at creating a good working climate with motivated individuals to perform with best results. In return it is expected that they act ethically in every situation. „Once regarded as a concern of a few philanthropic individuals and companies, corporate social and environmental responsibility appears to be becoming established in many corporations as a critical element of strategic direction, and one of the main drivers of business development, as well as an essential component of risk management.“ (Clarke, T., pp. 418)

The risks of unethical behaviour in a company minimize when ethical codes are respected and applied. The employees are expected to act ethically and the effect of synergy will appear without exception. The risk is due to a minimum and the return on investment in employees may bring the biggest profit and return multiple times greater than the rise in their salaries. The commitment of the employees and their willingness and determination to help each other brings the company to an upper stage in its development. If the employees are acquainted with the ethical code, they will put in bigger effort and develop an atmosphere of teamwork and a feeling of interconnectedness in accomplishing collective tasks leading to success. This will solve many difficult problems the managers face every day, and the risks are being reduced.

Some of the key points of CSR and risk management are:

- „- The market can deliver both short-term financial returns and long-term social benefits.
- The ethical consumer will drive change.
- There will be a competitive „race to the top“ over ethics amongst businesses.
- In the global economy countries will compete to have the best ethical practices.“ (Clarke, T., pp. 422)

Ethical practices and doing well in business are associated with tradition. The longer the company operates the bigger experience it gets and the profit making process is becoming a technicality. The company expands and the employees usually become expendable - but not in large ethical companies. „Large corporations are taking their social and environmental responsibilities more seriously, and these issues are becoming more critical in the business agenda.“ (Clarke, T., pp. 429) These companies rarely lay off workers and just keep employing new employees so the ethical codes and practices can be transferred from one generation to another. The company is becoming a second house for its employees and they identify with it. Those companies survive longer at the market and their lifecycle is longer because the employees are committed and loyal.

The employees' ethical effect on the organizations is:

- Bigger growth potential;

- New and fresh ideas providence;
- Longer lifecycle of the organization;
- Stronger liaisons amongst employees;
- Better communication with superiors;
- Smaller risk of unethical behavior;
- Better organizational culture and atmosphere amongst employees;
- Synergic effect;
- Bigger profits for the organization.

This is the reason why there are new and improved ethical codes for doing business in the global environment. „The Global Economic Manifesto is a self-regulatory moral framework. It includes five principles and values: humanity; non-violence and respect for life; justice and humanity; honesty and tolerance; and mutual esteem and partnership." (Clarke, T., pp. 433)

Today almost all of the corporations have similar ethical codes. However, two principles must be abided to support them:

- 1) Ethical code must be clearly presented inside the company and out of it.
- 2) Ethical code must develop practical ethical standards and procedures that are connected to the company’s work profile. (Williams, C., pp. 68)

We might also add a few principles for the new ethical codes:

- Ethical codes must be formulated so as the common employee can understand them well;
- Ethical codes must present the experience of ethical and unethical behavior inside the company;
- Ethical codes must present doing business with a good will and with good entrepreneur’s attention;
- Ethical codes could comprise the case studies so the employees can learn from them;
- Ethical codes cannot be obligatory because the problems that occur can be placed in different environment and time conditions.
- Ethical codes must vary from one organization to another not only because of the work profile, but also depending on the organizational behavior, culture, structure, climate, country, situational factors, educational level etc.
- When formulating ethical codes, people must also include main organizational goals such as profitable performance.

In the following Table some ethical issues are related to organizational principles and practices.

Table: Organizational principles and human behavior

Issue	General employees	Senior executives
Working for other organizations	Working for other organizations considered to be a vice.	Doing the exploration of the competition in the interest of the organization is considered as a virtue.
Pay-motivation relationship	Bigger pay stimulates employees to work hard.	The higher the pay, the higher the motivation.

Pensions	It is difficult for state or organizations to provide income after employment except for the adequate pensions.	Generous pension packages are essential to entice the appropriate level of executive talent.
Working conditions	Working conditions should be optimal.	A demand for exquisite working conditions.
Perks	The more you work, the more you get paid.	Benefits should be provided.

Adapted from: Fisher et al. pp. 264

#### **4. CONCLUSION**

Business ethics is mostly concerned with ethical behavior of employees as they represent stakeholders who are mostly affected by ethical principles in the organization. That is the reason why most of the cases of unethical behavior are connected to the abuse of workers. It is argued that rising business ethics in an organization brings synergy in all the crucial success domains of its business. In the effort to foster ethical behavior, the organization must give up some of its profits, and the employees are to abide to the ethical codes in return. In this way, an organizational climate based on ethical principles of good relations, mutual trust and commitment is created with all the employees, executives, managers and workers, participate in fulfilling the economic, environmental and social goals of the business.

It is argued that employees represent the focal stakeholder party of the company and that their respect of ethical principles can bring the most in return to the company. Doing business ethically means respecting tradition, different business customs, religion, and the personal characteristics of the employees (education, background, health and family situation, character, traits etc). It is concluded that it is the employees who can proactively enforce many ethical codes to be created and appreciated in the organization, and the appreciation of business ethics code by the employees will lead to further synergy in achieving multiple business results related to the economic, social and environmental equation. It is within a well balanced business ethics code where the different goals and ethical principles of different stakeholders are represented.

In this paper it is argued that the employees' ethical norms and principles within the ethical code contributes mostly to the fulfillment of diverse business goals of a company, and as such should be given priority and special attention. Ethical concerns of positive treatment nurtured through time can give results in the long term and secure stable business position and sustainable business development.

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