

Barbara Mazur

Poland
University of Finance and Management
Poland

Business ethics – idealism or necessity?

Introduction

The theory of sustainable development has been very well described scientifically. There exist, however, many contradictions, paradoxes and uncorroborated statements pertaining to the subject in question. Solutions suggested in literature tend to be contradictory, starting with the definition of axiological basis, through definitions and sets of rules, up to the suggested instruments and institutions for implementing eco-development.¹ Even the very concept of eco-development itself has not been very clearly defined. Its provisional character is described by B. Poskrobko, who assumes that "at the present state of research, the notion of eco-development can be understood as a way of conducting any business activity, shaping and using the potentialities of the environment, as well as organising social life, which can ensure the dynamic development of new production processes in terms of quality, the durability of using environmental resources, and the improvement (at the first stage) and then retaining high standards of life at a reasonable level".² One cannot, however, discuss problems and aspects concerning the development as defined in such way, without an attempt to identify the problems connected with shaping an integrated infrastructure of sustainable and durable development. The word *integrum* is derived from Latin and has several meanings: 1. irreproachable, untainted; 2. immaculate, pure, honest; 3. incorruptible, righteous, disinterested.³

The latest literary output concerning eco-development, despite all its richness and variety in elaborating on the subject, seems to omit, however, its ethical aspect.⁴ The following article is intended to draw the attention to this aspect of eco-development by presenting the costs which have to be borne by the society if ethics in industrial life doesn't exist. It is also meant to show the ways of struggling against this lack of ethical principles on several levels of social life: the state level, organisation level and individual level, as well as on different levels of management: from activities taken up by government-appointed bodies, through works of organisations operating on the market, to individual techniques of revealing the cases of mismanagement by employees themselves

1. Ethical strategy on the government level.

*Thirteen Hours from Warsaw*⁵

In the Philippines the awareness about the extent to which ubiquitous corruption afflicts the government is very high among the ordinary members of the society. Research conducted by Sheila Coronel and her team of students of journalism proves that one out of two citizens believes that "many, if not the great majority of judges", accept bribes. 14% of the people

¹ The problem has been elaborated on by G. Dobrzański in the article: *The Dilemmas of Sustainable Development*, from: *Controlling Eco-development – Theoretical Aspects of Eco-development*, edited by B. Poskrobko, Biaystok Institute of Technology Publishing House, Biaystok 1998, vol. I, pp. 157-170.

² Poskrobko, B., *Theoretical Aspects of Eco-development*, from: *Economy and the Environment*, Biaystok 1997, 1(10), p.10.

³ Latin-Polish Dictionary, edited by K. Kumaniecki, PWN Warsaw, 1981, p. 270.

⁴ An attempt to present ethical values determining the sustainable development has been taken up by S. Kozłowski in: *General Conditions of Eco-development*, from: *Controlling Eco-development – Theoretical Aspects of Eco-development*, ed. by B. Poskrobko, footnote 1, pp. 91-105. According to Kozłowski, these values are: justice, responsibility and restraint.

⁵ Bańkiewicz, R., *Thirteen Hours from Warsaw*, Rzeczpospolita Magazine, 28 (157), July 16, 1999, p. 5.

questioned admit that they know personally at least one corruptible judge. The general public feels that most corrupted institutions are those responsible for collecting taxes, immigration and customs institutions (75% of the people questioned); government and the police are next in the ranking of institutions most susceptible to corruption. The corruption in the military forces is omnipresent, according to 40% of people questioned.

Bribery has been ingrained in the culture of the Philippines political life since colonial times, when most profitable posts were available only to those who were ready to pay for them the highest price. Ferdinand Marcos institutionalised corruption – the dictator took the best part, but every one of his trustees could also find a decent share of the loot being transferred to his private account. With Marcos administration being gone, corruption still exists, but it's becoming de-centralised. Decision-makers, almost officially, still have to take their share of the loot in hard cash (transferred on their private accounts) for their signatures on documents instigating new government programmes.

Here is a typical example of the government order for supplying school-desks to public schools: 20% worth of the contract had to be paid to an official in the Department of Education, next 20% went to his superiors. Another 10% would go into the pocket of a clerk from the President's Office, only to make sure that he wouldn't make any bureaucratic obstacles to inhibit the implementation of the project. If paying a bribe to an appropriate member of Congress can't be avoided, it would cost the supplier another 15% worth of contract. There is still the customary 50,000 pesos which has to be paid to the clerk directly responsible for handling the government's money. The supplier of school-desks can count on only 35% - 50% of the entire sum the contract is worth. As the result of such policy, he has to make his own costs high enough in order to make profit, which explains why, for example, one textbook (supposed to be free and available for every student) has to serve the needs of six students in primary schools and eight students in high schools. In primary schools in Philippines there is a shortage of 3.3 million of school-desks, in high schools this number reaches 250,000. It's not an unusual picture that can be observed in Philippines of students, who bring chairs to school with them every morning and take them back home after classes, in order to have something to seat their backs on at school as well as at home.

In 1998, the Philippines Department of Education appropriated 670 million pesos for the purchase of textbooks. Assuming that 60% of this money was spent on bribes, 400 million pesos went down the drain. That money would be enough to cover the cost of printing additional 2.5 million textbooks and to distribute them among students.

Corruption in the Philippines is omnipresent, not only in the sector of government's orders in educational area. It also exists in health service, the military, police, and other recipients of orders issued by the government. Within the last twenty years the corruption in Philippines brought about losses of more than \$ 48 billion, while the entire foreign debt of the country over the same period reached the level of \$ 40 billion.

An example of the activity taken up on the state level, promoting the development of attitudes based on ethical conduct, can be illustrated by appointing the Independent Commission Against Corruption (ICAC) by the authorities of Hong Kong.⁶ The institution was brought into existence as a reaction to the high level of corruption in Hong Kong. One-third of top entrepreneurs in Hong Kong were victims to the corruptive practises in 1995 and, at the same time, 10 billion of HK dollars were embezzled. Under the auspices of the Commission, the Hong Kong Ethics Development Centre was brought into being, which can serve as an example of a body self-regulating ethical aspects of business, based on the assumption that taking up joint effort, promoting the tradition of compliance with ethical standards, is beneficial to every single subject of market economy.

⁶ The information about the activities of Independent Commission Against Corruption and Hong Kong Ethics Development Centre is presented after W. Gasparski in the lecture published in: *The Bulletin of Business Ethics Group of Praxiological Society of Polish Academy of Science*, 42, June 1999, pp. 13-20.

Independent Commission Against Corruption was established in 1974, when Hong Kong, because of widespread corruption, was in the period of serious social and economic unrest. The head of the Commission is the Commissioner. There is also small Administrative Department responsible for bureaucratic work of the Commission, Operational Department whose members are authorised to carry guns and arrest the suspects, Prevention Department, and Local Communities Department.

Prevention Department examines all complaints. This department handles areas most prone to corruption; it encourages initiatives leading to performing anti-corruption policy and improving anti-corruption laws. There is a great demand for such activities taken up by the Department from the companies representing private sector of the market. Research and consultative practises are common activities of the Department. Special stress is put on counteracting corruption and raising the awareness among the society about dangerous results of unethical behaviour.

Local Communities Department keeps continual contact with various communities with the help of eight local centres. Those centres carry out specific research. Their first report from 1974 was about the illegal immigrants from China; next analyses covered the situation on border crossings, analyses of car accidents investigation procedures, and advice for private and government sectors. Also, many educational materials are issued, addressed to tutors in educational institutions, as well as to children and their parents. Educational activity is also conducted through mass media – there are many TV spots and commercials condemning corruption. The entire programme is financed by the government.

Operational Department is responsible for carrying out scientific research. Within the Department there exists a sub-department handling legal aspects of its actions, co-operating with courts of law.

Also a code of ethics and a directory of companies which have their own codes are published regularly. Ethics Development Centre issued a catalogue of its publications. It also has a checklist of programmes promoting ethical conduct for companies to revive and improve their codes. There is also a model for making analyses of situations, called Ethics Plus. The Department also publishes a practical guidebook on how to organise ethical programmes, and how to prepare codes. All companies are free to call the Department for help, if any problems concerning ethics arise. Companies compile their codes in co-operation with ICAC, which gives them a certificate. Once a year the Commission monitors all companies with ethics codes.

There is also a special council supervising the workings of the Centre. It consists of representatives of six biggest chambers of commerce in Hong Kong. Ethics Development Centre issues guidebooks for lecturers prepared in co-operation with leading scholars. Those guidebooks are very detailed and are structured in such a way that students can use them for their business ethics classes.

ICAC employs 1200 people on individual contract basis. They are recruited mostly from the administration, civil service, universities. Every year a report summarising the research on public opinion view of corruption and on how the society perceives the activities of the Commission is being published. The Commission employees conduct research which proved the emergence of a new generation with different attitude towards corruption than the previous generations. On the rating list of countries according to the level of corruption issued by Transparency International in 1998, Hong Kong was on 16 place, one point lower than Germany, but one point higher than the United States.

2. Ethical strategy on organisation level

Corruption is not an unusual phenomenon typical only of poor third world countries.

There are many examples of countries with advanced market economy, where corruption is widespread. An example of such a company sunk in a total moral chaos is one of the biggest American companies – the General Dynamics Corporation.⁷

In the years 1970-1986 this giant-size company constituting for a vital part of US military industry become an epitome of a lack of responsibility and opportunism. US Army was “the first among equals” buyer of products offered by General Dynamics, though the bulk of its products went to other foreign states hungry for high-quality weapons. In 1984 General Dynamics Corporation was employing 92,600 people; it had contracts signed worth \$ 7.8 billion, while the company’s net profit was \$ 382 million. However, as it was revealed, in the final account the General Dynamics was misappropriating the money of American tax-payers which were supposed to be spent on modernising the US Army equipment. The Company was accused of: overinflating its own costs, fraud, unsatisfactory quality of its products, semi-legal character of its relations with Washington officials, faking bills, mismanagement, corruption reaching the level of international relations, tax-avoidance. The management of the company went on without any supervision, deadlines for making offers were not kept, documents were incomplete with vital information missing, the degree of demoralisation among the employees was immense. As it was proven, the value of General Dynamics stock was being tampered with, officials from the countries where General Dynamics received lucrative contracts were bribed. It was proven beyond any doubt that Admiral Rickover, the head of the US Navy received \$ 67,628 from the General Dynamics for the deliberate overestimation of prices of materials ordered by the Navy. What’s more, the money originally assigned for financing the production of new weapons, was directed to cover the cost of lobbying activities among the members of Congress (the money went directly into the pockets of selected government officials); membership fees to elite clubs for top General Dynamics managers were being covered from this fund; private weekend trips (using a jet plane) of the head of the company were also paid for from the tax-payers’ money . In general, the company’s long-term strategy appeared to be based on concealing its losses by issuing overestimated expenditure bills to the Department of Defence, which it could not refuse to pay. In 1968, when the Cold War was at its peak, the US Navy started to look for a company ready to build a fleet of new class sub-marine boats to counteract a similar programme instigated in the USSR at that time. An adjudication of tenders was held immediately. It was limited, however, to only two contestants, and was won, of course, by General Dynamics’ Electric Board Division. In 1976, General Dynamics demanded an extra \$ 843 million from the government to cover the incidentals connected with the building of the sub-marine boats (the Defence Department paid the company the entire sum).

The corrupt practices, like supplying products of low quality and overestimating costs, similar to those present in General Dynamics can be traced in many other companies from the US military industry sector, realising government’s orders . For example, the real price of an ordinary hammer made by the Gould Inc. Company was \$ 8, while the bill for the supply of hammers drawn up by the company for Pentagon was \$ 436 per each item (the remaining part of the cost being vaguely specified as surcharge and extra administrative costs).

There are several factors most often stressed by experts, which prove that the military industry is the sector of the economy most prone to corruptive practises. In the case of General Dynamics, its management was so lousy and ineffective that the company’s offers responding to Pentagon’s demands could not be realised simply because the company lacked the necessary technological and organisational capacities.

In 1985, the Secretary of Defence, John Lehman proclaimed disciplinary sanctions against General Dynamics. Contracts for \$ 22 million had to be cancelled. The company had to pay a penalty of \$ 673,000, bills for \$ 75 million were questioned; the head of the company and

⁷ The example of corruption in General Dynamics Corporation is given after the article by A. Lewicka-Strzańska: *Ethical Programmes for Companies: Theory and Practice*, from: *The Bulletin of Business Ethics Group of Praxiological Society of Polish Academy of Science*, 34, June 1998, pp. 5-8.

most members of the board of directors had to resign. The newly elected head of the company, Stanley Pace, decided that implementing a new programme on ethical conduct was the only way to purge the company's financial policy. The first step in this direction was the introduction of ethical code (General Dynamics Standards of Business Ethics) and ascertaining that every employee from every hierarchy level was familiarised with rules written in the code. The code contained rules regulating activities in the following areas: spheres of conflicting interests, sales, marketing, setting of prices, drawing up bills, negotiating contracts, relations with sub-contractors and consultants, quality controls, corruption, vexations and petty annoyances, bribery, dealing with classified information, environment protection rules and the company's activities abroad (with the focus on paying special attention to foreign legal systems).

Rigorous norms of ethical behaviour in particular situations were set up, and draconian rules for giving out and accepting gifts by employees were drawn (even if the gifts were such petty items as ball-pens or calendars). A special unit (Committee on Corporate Responsibility) was summoned up to supervise the obeying to the rules set by the code. All of General Dynamics executive level managers were obliged to actively participate in the implementing of the new code of ethics. The company employed a professor of business ethics from the Chicago University to monitor the ethics programme. Training courses on business ethics were organised for all the workers of the company (they were led by a group of trainers selected from among General Dynamics employees, who were prepared for this task). Every potential employee of General Dynamics had to be made familiar with the code of ethics, and be prepared to commit him/herself to acting according to the rules set by it. Each sub-contractor received the General Dynamics code of ethics book together with the contract (a special note asking for complying with the rules set by the code was included in the papers). The programme was systematically updated, taking into consideration observations made by ordinary workers. Their comments could be submitted directly to the executive level through 29 telephone lines (operating even after-hours) installed for this specific purpose. The implementation of the programme was monitored by people from inside the company co-operating with the representatives of institutions having nothing to do with General Dynamics. A report on the practical realisation of the rules set by the code was to be published on a yearly basis.

3. Ethical strategy on individual level

The Case of the Suwa³ki Hospital.⁸

The price of a kilogramme of beetroots demanded by Mr O. is PLN 1 (\$ 0.25), similar price for the same amount of beetroots offered by wholesale houses is PLN 0.5. The disparity in the price of other vegetables and fruits between Mr O. and wholesalers is even bigger. However, it was Mr O., who was chosen to be the supplier of fruits and vegetables to the hospital in Suwa³ki. The original contract signed by Mr O. and the hospital expired on July 17, 1998. An adjudication by tender for supplying fruits and vegetables to the hospital was to be held, the whole procedure was pre-planned and paid for, but somehow putting this piece of work up contract never took place. Fruits and vegetables are still supplied by Mr O., at the price 28% higher than the price offered by other wholesale suppliers .

The purchase of gas and combustible also is also a problem. In the contract signed by the hospital and the supplier of those materials it was written that any change in the retail price of the product in question requires making an annex to the contract, and the new price has to be proportional to the price-level valid at the moment of signing up the deal and to any increase or decrease of the price of fuel at P³ock Petrochemical Company (the supplier of fuel). Despite such stipulation, the supplier made annexes only in cases of the rise in the price of fuel (although price falls also took place in that period of time). Between January and May,

⁸ Hofmann, J., *The Hospital Pays Extras*, Gazeta Wyborcza, Bia³ystok Edition, Nov 29, 1999; by the same author, *An Accountant To Be Fired?*, Gazeta Wyborcza, Bia³ystok Edition, Dec 2, 1999.

1998, the disparity in the price of one litre of gas from P³ock Petrochemicals and, for instance, Transbud E³k Company, was PLN 0.17. Considering the fact that the hospital consumed 180,192 litres of oil in that period, it paid an extra PLN 30,624 to the P³ock Petrochemicals. Such wild financial policy, having nothing to do with the reasonable and economically justified appropriation of funds could be met in other cases, for example, the purchase of single-use kitchen utensils did not result in reducing the amount of chemicals used for cleaning of plates, knives, forks, etc. As a reaction to many alarming signals from the hospital personnel, a special commission was assembled to check the spending policy of the hospital. The commission revealed activities proving irresponsible and irrational strategy of handling financial matters. The hospital's debt by the end of November, 1998 exceeded PLN 17 million.

Uneconomical management of the hospital funds was traced by its chief accountant. She sent countless dunning letters to the hospital's director (all of them went unanswered). But finally, the hospital's finances were put under tight scrutiny by an independent body. It disclosed serious misuse of the hospital's financial means. However, the new hospital's director (the former one was fired), gained the acceptance from the hospital's trade unions organisation for firing the accountant, charging her with the violation of discipline rules, mishandling of the books and behaviour colliding with the standards set by the hospital officials. Nobody doubted her credibility and experience. The last balance sheet she made was generally accepted. She only tried to protect the hospital from wasting money. In her reports she pointed out specifically who was responsible for wasting the money and where it went. For her trying to act honestly, she was made directly responsible for the corrupt practises in the hospital, which resulted in her resignation.

Conclusions

There are many ways of influencing the implementation of high ethical standards in companies and in the minds of their workers. Several instruments of exerting such influence can be applied on this level. On the state level, the government and its institutions could use the whole spectrum of techniques reinforcing the implementation of ethical policy, beginning with setting up of appropriate legal standards, and ending up with the appropriate social marketing policy, in order to promote the desired social stance and behaviour.⁹

Organisations can lift up the level of understanding of ethical issues among their workers using a wide range of instruments: conducting courses to familiarise people with basic, as well as with specific programmes, directed at shaping the desired behaviour; creating ethical codes; setting up the office of ombudsman; developing and reinforcing ethical culture; and bringing to life ethics committee organisations.¹⁰ Also, an internal system of revealing abuses can be created, which would help to solve ethical problems and dilemmas within the company. Such system can work effectively only when the employees feel responsible for the working of the company as a whole, when the procedures of revealing abuses are clearly defined, when workers are prepared to accept and act accordingly to the notifications being

⁹ Among the countries of Eastern and Central Europe only in Latvia an action against corruption was taken up on the government level. It was supported by the World Bank and the European Union. The Latvian government decided to fight corruption through the means of:

- limiting the state's influence on the economy;
- re-organising the workings of courts of law and institutions responsible for fighting corruption;
- increasing the awareness among the society that corruption is negatively affecting the entire society.

The government in Latvia held a public conference on the subject of corruption, then a huge anti-corruption campaign was started, with its own very distinctive logo, press advertisements, free telephone lines for disgruntled citizens etc.; taken from the article by Bia³kowska-Gu²zyńska, A., *Approved of, Widespread, Wrong*, published in: *Business Magazine*, 9(90), p. 17.

¹⁰ Kostera, M., *Instruments of Influence on the Ethical Level of Organisations*, *The Review of Organisations*, 4, 1992, pp. 11-12.

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issued, when the company is responsive to any signal about corruption practises, and when workers revealing such cases of corruption are guaranteed security.¹¹

A employee, as an individual, can also influence the improvement of ethical standards within the company, using such techniques as sending anonymous letters, or silent or public protest. The theory of ethics allows for revealing corrupt practices and the mismanagement of funds to the public by a worker if the following criteria are fulfilled:

1. potential or real damage done by the company to an individual or to the entire society is serious,
2. the worker revealing publicly corrupt practises first tried to inform his/her superiors inside the company about them,
3. all opportunities to counteract the corruption without resorting to institutions outside the company were depleted.

If another two conditions are fulfilled:

4. the worker bringing to light the corrupt practises is capable of supplying documentary evidence corroborating his/her accusations, or can show the way how such materials can be obtained,
5. the worker is convinced that his/her actions would bring about the desired changes – the chance of success is high and it justifies taking the risk of violating the loyalty oath to the company, it is the worker's moral obligation and duty to inform the media and other institutions about the corrupt practices of the company.¹²

In the era of rapid rise of ecological consciousness within the society more and more attention is being paid to those ethical values that reinforce the ecological perspective of the world development. Those values are beyond any doubt connected rather with the ethics of growth and development than with distributive ethics. It is moral development, then, that is the prerequisite of the sustainable and durable development of the world.

¹¹ The problem is discussed in depth by Lewicka-Strzażeczka, A., in: *Ethical Standards for Companies and Their Workers*, IFiS PAN Publishing House, Warsaw 1999, pp. 141-151.

¹² *Ibid.*, pp. 135-141.