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Ethics as an Essential Condition for Sustainable Economic Development

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Content

Introduction

The importance of ethical behaviour to an organization has never been more apparent, than nowadays. In recent years, researchers have generated a great deal of knowledge about the management of individual ethical behaviour in organizations. The crisis of values causes numerous problems in the current social development therefore ethical aspects and specifically education for ethics becomes of high importance – especially in economics. It is necessary to harmonise the theory of economics with natural laws, to seek for new challenges and opportunities in academic environment and particularly in the educational process. The aim is to awaken the reassessment and practical application of ethical principles. The ethics is getting to the centre of attention as a benchmark in order to compare and evaluate various vectors of development which are being proposed at BraNetix 2014.

Proceedings of scientific papers present results of research activities of the researchers of the University of Economics in Bratislava and University of Neuchatel in the area of sustainable, ethical and socially responsible entrepreneurship, ethics in accounting, ethics in corporate finance, accounting and auditing, ethics in corporate governance, ethics in the financial service sector, CSR and business performance, ethics in international trade, ethics in business and labor conditions, performance measurement of ethics in business and finances.

Authors

Differences in Cultures – Subject to Different Approaches to Ethics in Business

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Abstract: *Topic of the submitted paper tends to provide a general outline of changing world of business where ethical principles claim ever higher degree of attention. Corporate social responsibility has been ranked among goals many large multinational as well as domestic businesses have recently been focusing on. Moreover, globalisation with its side-effects also influence business activities, involving ethical principles, religious, gender, racial and cultural differences. Many business companies tend to penetrate to local markets worldwide. Thus, in different environments they have to face varieties in ethical and moral principles as well as their perception and they have to deal with these threats carefully to avoid clashes that would damage their business activities.*

Keywords: Corporate social responsibility, ethical principles, cultural differences, ethical code, moral issues
JEL Codes: F 63, M 14

1 Introduction

Contemporary world of global business has been challenged by a number of situations and issues that have never been faced before in such an extent. Scientific research, development and industrial progress have resulted in introducing new technologies and increased production in all branches of industries. These trends have resulted in very positive outputs but they witnessed some negatives as well.

Shifts and changes in geo-political structures worldwide, globalization trends in business activities accompanied by cultural and religious issues – are just some of a number of factors that have to be involved in activities business people are to consider when doing business today.

Basic idea of business has always been tied to profit creating and cumulating it. The final goal and the idea that lies behind are triggers for all those who want to satisfy their ambitions and become successful in a whole variety of business activities they provide.

Even though profit is the output of business, it is not linked with mere entrepreneurial activities. Some may object that introducing new ideas and creating new job opportunities is enough for satisfying the ´higher principles´ in business activities. However, ethical as well as moral principles create some invisible barriers and to break them may become more important than accumulating profit. Economic activities are subject to evaluations based upon higher principles than just satisfying people´s needs and demands.

2 Corporate Social Responsibility

The more individuals or business entities achieve due to their business activities, the higher they move in social ladder. They are challenged by a number of situations to leave their fixed and in-born ethical and moral principles in the name of significant social status and good business opportunities. For many of them these temptations are not easy to face.

Business ethics may seem to be rather controversial as it leads to a conflict between economic and ethical reality, between individual vs. general interests. On one side it follows the process of profit maximation and on the other one, it should focus on fair and harmless acts in doing business.

This controversy may lead business people to a dilemma – *how to win the tough struggle with competitors in the market and not abandon one´s ethical principles.* It does not at all mean that they want to ignore ethical and moral principles, some of them merely suppose these factors should be excluded from business activities. They frequently argue that they are law-abiding entities and they cannot ´afford´ considering ethics in their businesses as they would lose their competitiveness in the market. They argue they have responsibility for their employees and if they involve ethical principles in their activities their less ethical competitors might take over their positions in the global market.

Due to globalization and fast spreading information through media channels these arguments have been fading away. General public in most countries worldwide, especially those with developed economies, tend to be very sensitive to violating ethical and moral sides of businesses. Large companies do not dare to ignore public opinion any more and they include a variety of programmes following the idea of creating a positive ethical-oriented company image.

Corporate social responsibility (CSR) is a term to be denoted to as a certain level of responsibility firms have towards the people and environment affected by their businesses. Most large corporations and multinational companies have a CSR programme that carefully watches where their responsibilities lie and how they should fulfil them.

These responsibilites are focused not only on stakeholders - being directly involved in particular business – e.g. staff, customers, local communities, suppliers, etc. Company activities follow responsibilities on global level as well – they are expected to play a role in the sustainable development of societies, the economy and the natural environment.

Most companies recognize that it is in their own interests to have a good CSR record. A reputation that has taken years to build can be destroyed in hours through a corruption or environmental scandal. On the other side, a good CSR record can help to improve a company´s image and business, and it is useful in attracting customers and talented staff.

A good CSR programme can help to combine growth with doing good - it is especially so in developing countries. Many firms help to create new markets by investing in projects that raise the living standards in local communities. More generally, the focus of CSR has changed from a paternalistic philantrophy towards more active cooperation with communities, to transfer skills and help people become more independent.

3 The Business of Giving

Another aspect of applying ethical and moral standards is the idea of corporate involvement in charitable and community organizations, sometimes known as ´philantrocapitalism.´ This term also describes the use of business principles in running a philantropic organization. The idea involves both well-to-do individuals as well as large corporations.

Some rich entrepreneurs plan to give a large portion of their wealth away. Among those who are well-known for this part of their activities are Warren Buffet, Bill Gates, and a number of others from all parts of the world. They, however, are not those who had invented the trend. A Scottish philantropist Andrew Carnegie started with these activities in the late 19th century. His slogan was as follows: "The man who dies rich dies disgraced" (Carnegie: 2005). During his lifetime he gave away more millions of US dollars and today the Carnegie Corporation supports education, international peace and development.

Large corporations are other entities that consider important support and promote the idea that, by helping others, companies will profit, too. Aside from being the right thing to do, corporations have found that getting involved in the community contributes to building a positive brand image. Their comprehensive strategies help build public trust and moral authority. It can also be an effective way to differentiate one enterprise from another in an increasingly competitive environment.

Corporations have developed a number of different startegies for ´doing well by doing good.´ Some companies tend to support issues which are often less appealing on religious or moral grounds. This may result in critical approach as it can confuse or anger consumers though few people would argue against putting the huge profits of individuals and corporations to good use.

These activities should certainly be supported even though it is doubtful whether their role in changing the world are vital.

4 Barriers for Developing Ethical Thinking at Work and in Society

One barrier to ethical behaviour in business is lack of professional standards. Strictly considering, business is not a profession if we compare it to that of a doctor, lawyer, teacher, etc. Professions develop over long periods of time and they gradually establish their standards and sets of control mechanisms as well as sanctions for those who violate the professional codes. True professionals undergo extensive training to earn a licence. If they do not act according to recognized standards, they can be expelled from their professional associations.

Although most of present business people, top managers and CEOs are university graduates, unfortunately enough this is no guarantee of ethical behaviour. In fact, the opposite could be the case and the sad truth is that one´s ethical sense can be undermined by bad behaviour of others, especially unfair competitor and lobbying practices. It is a ´good excuse´ for admitting that there is no wrong about it as ´everyone does it´. So many business people tend to claim that if people around us are cheating, it is an inevitable price of success.

As a result of well-publicized scandals, many large companies have established their compliance code to regulate ethical behaviour. This, however does not automatically guarantee that problems will not occur. Companies should support individual responsibility by everybody in the company.

Another important fact is the way and degree how management approaches ethical principles. If there is a trend on the side of management to strictly follow their established rules, they become taken for granted with lower layers of the staff, too.

We can witness an interesting paradox – on one side there is a strong claim for ethics in business, on the other side more and more companies have to face ethical failures in their activities. This situation may reflect the fact that CEOs have come under increasing pressure from the side of their shareholders and during the period of global economic crisis they do not want to fail in hitting the numbers that could mean their early exit.

sustainability reports of selected companies there were ethical aspects included in the reporting. The companies follow their own codes of conduct and non-financial reporting is based on the GRI guidelines.

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Ethical Principles in Distribution of Recognised Gain in a Company

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Abstract: *The basis for the management decision-making is an accountancy, either past-based (financial accounting), or future-predicting (management accounting). It is a means of distributable gain quantification without an imperilment of business property of company that is one of the most important issues regarding further existence and development of a company. With respect to the structure of investors, the distribution of the recognised gain, being approved by investors, is often motivated by a maximum amount of gain sharing payout each year. However, this attitude makes other activities of a company more difficult, if we speak of a distribution of a paper gain (recognised), or of company solidity in the time of their payout. It is therefore very important for the management and investors to respect ethical principles regarding requirements for gain sharing payout not to imperil further existence of a company, thereby a return and appreciation of investments in the long-time perspective.*

Keywords: ethical principles, distribution of the recognized gain, manager, investor, property maintenance of company

JEL codes: M 40

1 Introduction

Nowadays, the term "ethics" is being used very often. However, the spirit and meaning of this term does not allow an unambiguous definition of its content. The word "ethics" comes from the Greek "ethos", which means opinion, characteristics, habit, way of thinking and doing. In general, though, each and every person associates this term with an ethical doing identical to the doing which is not in a contradiction to applying basic rights of all the other concerned parties, i.e. parties influenced by such doing. It is mostly understood as a moral doing, i.e. respecting unwritten moral standards and rules of just conduct. This stems from the abstract nature of the term "ethics" and depends on education and experience, individual limits of each person in their common life behaviour, i.e. what an individual considers ethical.

There are basic sets of rules for many situations regarding various professions, so to ensure consistent ethical codes of conduct for a specific community. These, very often written, rules make an ethical codex of a specific community, or profession.

Managerial ethics is understood to be a business ethics referring predominantly to the process of a decision-making in an organisational and entrepreneurial sphere. The management is what the success of a company mostly depends on. Nowadays, a manager is a position quite like any other employee position, with the exception of their competencies that predetermine them to a thorough following of company interests in line with their main objective, which is a long-term prosperity. The manager is in particular expected to effectively collaborate with their employees in many aspects, including reporting and evaluating economic and financial condition of a company.

The basis for the management decision-making is an accounting, either past-based (financial accounting), or future-predicting (management accounting). It is a means of distributable gain quantification without an imperilment of business property of company that is one of the most important issues regarding further existence and development of a company. As the balance policy of a company is controlled by the management, a recognised gain is a value reflecting to a large extent the management's attitude to methodical means of accountancy. With respect to the structure of investors, the distribution of the recognised gain, being approved by investors, is often motivated by a maximum amount of gain sharing payout each year. However, this attitude makes other activities of a company more difficult, if we speak of a distribution of a paper gain (recognised), or of company solidity in the time of a payout. It is therefore very important for the management and investors to respect ethical principles regarding requirements for gain sharing payout not to imperil further existence of a company, thereby a return and appreciation of investments in the long-time perspective.

2 Methodology and Data

The aim of this article is to describe alternatives of understanding ethical principles in the distribution of the recognised gain. In this article, epistemology is used as a basic method. In particular, ways of understanding and explaining of ethical principles in time of distribution of the recognised gain in a company, inductive-deductive and analytic-synthetic logical scientific method are used.

3 Results and Discussion

The issue of recognised gain quantification and its subsequent distribution is very actual now. The problems are in companies with recognised gain, but with cash flows not allowing them to pay out the shares smoothly. This means the company needs to indebt itself to be able to pay out the shares, which leads to the expensive and uneconomic equity capital.

From the perspective of an economic and accounting theory, there are many corresponding conclusions in examining relations between capital and gain of a company and its implications. One of the common conclusions is that only the gain quantified in a way that ensures a capital value unchanged, can be used for consumption. As the basic goal of economic activities means a satisfying of the needs, gain may also be defined as a surplus usable for consumption. Gain is a positive difference in a capital value at the beginning and the end of a given time period (accounting period). The main goal of a periodic determination of gain is therefore a preservation of capital. This means that gain is a surplus that can be distributed after applying measures to preserve the capital value. As the invested capital in a company is a production form of a property considered to be assets, it is the development of the business property of company that predicts the future ability to reach gain.

The aforementioned means that the development of capital is analogous to the development of business property of company which influences the reached benefit, i.e. gain.

A preservation and recovery of business property of company is a basis for time and factual differentiation and assignment of costs to profits of a company when determining income trading results. It is one of the forms of assessing result (profit) condition of an accounting unit, linked to an assessing of business property of company condition of an accounting unit by means of assets change. Business property of company are preserved during the process of recovery of individual reproducible asset components (economic resources), consumed or expended for the company activities in a monetary substantiation out of profit reached in a given period.

Regarding different ways of understanding the business property of company, the determining of income trading results is based on the concept of its preservation:

Capital maintenance – financial (monetary) understanding of business property of company

Capital preservation in financial terms is ensured if equity (net assets) in monetary terms at the end of an accounting period is the same as at the beginning of this period, i.e. if the following applies: equity at the beginning of an accounting period (equity at the end

of a previous accounting period) = equity at the end of an accounting period, when surplus is gain. **+ Gain / - Loss = Equity final - Equity initial**

Nominal gain is based on a nominal preservation of capital – it is determined from a nominal value of an invested amount of money that does not take into consideration potential changes in property and liabilities prices.

Adjusted nominal gain is based on an adjusted nominal preservation of capital – based on adjusted invested amount of money per actual purchase power of unit monetary that reflects changes in property and liabilities price changes due to inflation. Capital preservation in financial terms does not require using of a particular pricing base. A choice of a pricing base depends on the type of capital a company tries to preserve. For pricing property and liabilities, historical costs are mostly used. This is when capital (equity) is recognised in a nominal amount.

In an accounting system based on historical costs pricing a trading income is quantified as a difference between profit in prices valid in time of sale (regular prices) and costs in prices valid in time of acquiring the consumed parts of a property. If the purchase power of money changes during the given period, or if prices of consumed parts of a property changes, this can lead to the situation when an amount is recognised as gain that should be held (not distributed) for capital preservation. This amount does not represent a real distributable gain. If this amount is distributed in gain sharing or dividends, i.e. property price changes or purchase power of unit monetary changes in time are not taken into consideration this can lead to a reduction of equity, called a "capital erosion".

Business property of company maintenance – physical (material) understanding

Capital preservation in physical terms means an ability of a company to recover its production capacity at the end of an accounting period, this to the same level as expressed at the beginning of the period in quantitative units, output units or profit units. This means that the volume of economic resources representing production capacity at the end of an accounting period is the same as at the beginning of the period after exclusion of transactions with owners. Gain is a surplus of reproducible economic resources.

Business property of company maintenance requires under this understanding a pricing of property and liabilities in *regular prices* and gain can be determined in this way:

- when preserving components of assets

As a surplus on a reproducible property from the beginning of an accounting period. A company property is expressed in quantitative units and in value expression as units monetary in a *reproduction acquisition price*, while it is assumed that only the same number of particular types of fundamental property is able to secure at least the same entrepreneurial activity in the future. Distributable (real) gain is a final amount after a deduction of difference from re-evaluation of the property with reproductive acquisition prices changes from the difference of equities at the end and at the beginning of an accounting period. **+ Real Gain / - Real Loss = Equity final - Equity initial +gain/-loss (in current prices)**

A real trading income can be also calculated as a sum of partial trading incomes from particular economic operations for an accounting period, where costs items of consumed property are to be evaluated by reproductive acquisition prices. Or as a difference of profits and costs for the consumed property in regular prices.

- when preserving performance potential of business property of company

The main objective of business property of company preservation in this understanding is preserving the production capacity of a company, while production is a main indicator of profitability.