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THE IMPORTANCE OF ETHICS IN BUSINESS

ZNACZENIE ETYKI W BIZNESIE

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Streszczenie. W artykule zdefiniowano moralność, etykę oraz etykę biznesu. Ponadto przedstawiono związek między etyką i prawem oraz wyjaśniono znaczenie etyki w biznesie. Uzupełnieniem artykułu jest charakterystyka interesariuszy takich jak akcjonariusze, menedżerowie, pracownicy, dostawcy i dystrybutorzy, klienci, społeczeństwo i naród oraz ich związek z organizacją w kontekście etyki. Szczególną uwagę poświęcono menedżerom, którzy powinni nakłaniać swoich pracowników do przestrzegania zasad etycznych w organizacji. W artykule przedstawiono także przyjęty przez McDonald's kodeks postępowania dla dostawców.

Key words: business, business ethics, ethics, stakeholders.

Słowa kluczowe: biznes, etyka, etyka biznesu, interesariusze.

INTRODUCTION

Ethics refers to a code of conduct that guides an individual in dealing with others. Business ethics examine ethical problems that arise in a business environment. Ethics is related to all disciplines of management such as human resource management, production, sales, marketing, and international business. Ethical behaviour is very important when dealing with any stakeholders who have a claim on and a stake in a company. The main stakeholder groups are stockholders, managers, employees, suppliers and distributors, customers, community, society, and nation. Stakeholders can directly benefit or suffer loss by the company's actions. Therefore, the company's business ethics is very important to them.

In my view, one of the major company's stakeholders are managers. Managers should create a workplace in which members of their team feel confident and able to raise ethical issues. What is more, they should know how to influence employees' behaviour in an ethical direction. I believe that managers have a real responsibility to teach employees what they need to know to recognise and deal with ethical issues, which they are likely to face at work. In addition, managers' decisions should reflect their own ethical standards of conduct. Furthermore, their code of ethics should help to establish ethical conduct between not only management and employees, but also the company and its other stakeholders. Managers making decisions in international business face a number of specific ethical problems, which are due to some factors such as the diversity of political and legal regulation systems, the diversity in forms of economical organisation and levels of economic development and insufficient regulations or corruption in some areas of the world.

DEFINING MORALITY, ETHICS, AND BUSINESS ETHICS

In common usage, the terms 'ethics' and 'morality' are often used interchangeably. In fact, these two words do have different meanings. Therefore, in my opinion, it is crucial to distinguish between them and to use them properly. Morality is concerned with the norms, values, and beliefs embedded in social processes, which define right and wrong for an individual or a community (Part A. Understanding... 2006). I think that we can define morality as the standards that an individual or a group has, regarding what is right and wrong, or good and evil. In contrast, ethics is the discipline that examines one's moral standards or the moral standards of a society to evaluate their reasonableness and their implications on one's life (Velasquez 2012). Ethics is concerned with the study of morality and the application of reason to elucidate specific rules and principles that determine right and wrong in a given situation (Part A. Understanding 2006). I am convinced that ethics is a system of moral principles and methods of applying them. It follows that not only the conception, but also the model allows people to make moral decisions. Ethics is the science of morals, about right and wrong. Something is morally right if it is morally permissible and morally wrong if it is morally impermissible. What is more, ethics indicates how a person should behave to avoid causing harm to another person. The essential problem in dealing with ethical issues, and thus solving moral dilemmas, is that there are no absolute rules or principles that can be developed to decide whether an action is ethical or not. In other words, different people may dispute which actions are ethical or unethical depending on their own personal beliefs, self-interest, and values.

According to Velasquez (2012), business ethics is a specialised study of moral right and wrong that focuses on business institutions, organisations, and activities. Business ethics is the study of moral standards, and how these apply to the social systems and organisations, through which modern societies produce and distribute goods and services, and to the activities of the people who work within these organizations. Business ethics, in other words, is a form of applied ethics. It not only includes the analysis of moral norms and moral values, but also tries to apply the conclusions of this analysis to that assortment of institutions, organisations, and activities that we call business.

BUSINESS ETHICS AND THE LAW

Ethics and the law are systems of rules of conduct. Most people in business know why the law must be adhered to. Laws are important social rules with serious penalties (McCarty 1988). The law tells us what we are or are not allowed to do, and breaking the law often leads to punishment. There is indeed a considerable overlap between ethics and the law. In practice, the law is essentially an institutionalisation of ethics into specific social rules, regulations, and proscriptions. Nevertheless, they are not equivalent.

The law could be said to be a definition of the minimum acceptable standards of behaviour. However, the law, whether in business or elsewhere, does not explicitly prohibit many morally contestable issues. For instance, there is no law in many countries preventing businesses from testing their products on animals or selling landmines to oppressive regimes. Similarly, it is possible to think of issues that are covered by the law, but which are not really about ethics. For example, the law prescribes whether we should drive on the right or the left side of the road. Although this prevents chaos on the roads, the decision about which side we should drive is not an ethical decision as such. In one sense then, the domain of business ethics can be said to begin 'where the law ends'. Business ethics is primarily concerned with those issues, which are either not covered by the law, or where there is no definite consensus on whether something is right or wrong. Law is the public's agency for translating morality into explicit social guidelines and practices – but for most of the issues of interest to business ethics, the law typically does not currently provide us with guidance. For this reason, it is often said that business ethics is about the 'grey areas' of business, or about going 'beyond the legal minimum'. Moreover, 'ethical' responsibilities are depicted as those that are above and beyond 'legal' responsibilities (Crane, Matten 2004). Figure 1 presents the relationship between the law and ethics.

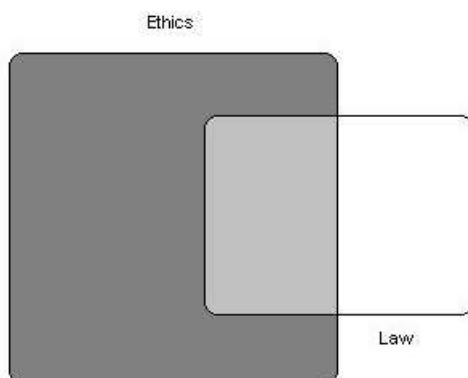


Fig. 1. The relationship between the law and ethics
Source: own elaboration.

WHY IS BUSINESS ETHICS IMPORTANT?

The influence of business in society is greater than ever before. Many members of the community are uneasy with such developments. Business ethics helps us to understand why this is happening, what its implications might be, and how we might address this situation. What is more, business malpractices have the potential to inflict enormous harm on individuals, on communities and on the environment. Through helping us to understand more about the causes and consequences of these malpractices, business ethics seeks, 'to improve the human condition'. Moreover, the demands being placed on businesses to be

ethical by their various stakeholders are constantly becoming more complex and more challenging. Business ethics provides the means to appreciate and understand these challenges more clearly, so that firms can meet these ethical expectations more effectively. Furthermore, business ethics can help to improve ethical decision making by providing managers with the appropriate knowledge and tools that allow them to correctly identify, diagnose, and provide solutions to the ethical problems and dilemmas they are confronted with. Furthermore, business ethics provides us with a way of looking at the reasons behind such infractions, and the ways in which such problems might be dealt with by managers, regulators, and others interested in improving business ethics. Business ethics can also provide us with the ability to assess the benefits and problems associated with different ways of managing ethics in organisations. Finally, business ethics is also extremely interesting in that it provides us with knowledge that transcends the traditional framework of business studies and confronts us with some of the most important questions faced by society. The subject can therefore be richly rewarding to study because it provides us with knowledge and skills, which are not simply helpful for doing business, but rather, by helping us to understand modern societies in a more systematic way, can advance our ability to address life situations far beyond the classroom or the office desk (Part A. Understanding 2006).

STAKEHOLDERS AND ETHICS

The people and groups that have a direct or indirect stake in an organization are called its stakeholders. The main stakeholder groups are: stockholders, managers, employees, suppliers and distributors, customers, community, society and nation-state (Chapter 5. Business...).

Stockholders. A shareholder (or stockholder) is an institution or individual that legally owns any part of a share of stock in a public or private corporation. This stock grants them the right to obtain some of the company's profits in the form of dividends. Stockholders always want to achieve maximum profits. Therefore, they pay attention to the company and its managers in order to be sure that they are working effectively to increase the company's profitability. Moreover, stockholders want to ensure that managers behave ethically and that they care about company's reputation.

Managers. Managers are a crucial stakeholder group because they are responsible for using a company's financial capital and human resources to increase its profitability (Chapter 5. Business...). They must not behave illegally or unethically or to pursue goals that threaten stockholders' or employees' interests. They have to act ethically with regard to the needs of people in the organisation and the community. They should also provide a working environment that protects the health and safety of employees and minimises stress at work. Finally, they ought to provide a reasonable balance for employees between their private life

and their work and protect them against harmful practises at work (bullying, harassment and discrimination).

On the other hand, managers are very often confronted with ethical problems in the workplace involving employee theft, cheating or lying. There are many ways, in which managers can influence the people in their companies to behave ethically. First, they can promote moral values that employees use to make decisions. They can demonstrate those values by behaving in a certain way – such as by being honest. Managers have a real responsibility to teach employees what they need to know to recognise and deal with ethical issues they face at work. Guidance regarding ethical conduct is an essential aspect of controlling their actions. It can provide important information about organisational rules and policies, and guidance about behaviour that is considered to be appropriate or inappropriate in different situations. According to Manning and Haddock (1990) there are five steps that must be taken by managers to establish an ethical workplace:

- Step 1. State your corporate values and make sure all your employees understand them.
- Step 2. Make sure your word is your bond. Act with integrity and expect employees and associates to do so as well.
- Step 3. Express your appreciation. Demonstrations of gratitude strengthen the ethical foundation of your office and encourage ethical behaviour from others.
- Step 4. Make others successful.
- Step 5. Make sure all your decisions reflect your ethical standards and values.

Outside the organisation, as a spokesperson, the manager can inform all stakeholders about the organisation's ethical values and then consistently abide by them. Due to the globalisation of markets and production processes, an ever-increasing number of organisations have to deal with ethical issues in cross-cultural settings (Singh, Jindal, and Samim 2011). Ethics is particularly important in international business where different societies have their own customs, behaviours, and values. Specific ethical problems that arise in international affairs are due to several factors such as: the diversity of political and legal regulation systems, the diversity in forms of economical organisations and levels of economic development, insufficient regulation (especially in less developed countries), existing conflicts between national and regional economic interests, the influenced area and power of multinational corporations as well as corruption in some areas of the world (Soproni 2009). Therefore, business ethics in the international dimension should be an important component of managers' education. In order to be able to respond to ethical challenges in international business, managers have to understand the complexity and unpredictability of the global business environment and its ethical issues and to develop strategies for moral decision-making.

Employees. Employees are also a vital stakeholder group because the company cannot exist without them. They work for that company for financial gain. Managers often set vari-

ous conditions to employment, such as a dress code and respectful behaviour. Employees have to be loyal to the company they work for. Ethical conduct enables them to integrate their personal goals with the company's aims. Companies with an ethical approach believe that their employees are more committed to their success as a result. What is more, in that kind of company employees work harder in order to achieve organisational aims. Ethical organisations also believe that they will be better able to recruit well-qualified and motivated employees.

On the other hand, employees should be treated fairly, with dignity and respect. Therefore, managers have to act ethically towards employees and meet their expectations by creating an occupational structure that fairly rewards them for their work. Additionally, managers are expected to set a personal example in promoting a healthy and safe working environment.

Suppliers and distributors. Organisations interact with their suppliers and distributors. A supplier is a company, which supplies parts or services to another company. Ethical suppliers supply high quality products and seek long-term profitability. A distributor is a company, which sells and delivers merchandise to retail stores or acts as an intermediary in business. Suppliers expect to be paid fairly and without delay for their inputs whereas distributors expect to receive high quality products at agreed-upon prices. The most important issues connected with the payments or the qualities of products are governed by the terms of the legal contracts, whereas many other issues are dependent on business ethics. The company should treat the suppliers with fairness and integrity and build mutually beneficial relationships, regardless of the value of the transaction or the length of the association. In addition, managers have to monitor how suppliers and distributors adhere to the principles defined in the code of conduct and take appropriate action if behaviours are contrary to these principles. Table 1 presents part of the McDonald's Code of Conduct for Suppliers.

Customers. Business ethics is especially important in dealing with customers. It is said that customers are the most critical stakeholders. Therefore, the company's main objective should be customer satisfaction. When customers are satisfied, they will be loyal to the company and come back for re-purchasing. If the consumers are not satisfied, then there will be no sales and no profits either. Consumers will be satisfied only if the company follows all the ethical norms and values. Customers have more trust and confidence in the businesspersons who follow ethical rules. Therefore, the only way to survive in business is to be honest and fair. The company's primary duty is to provide consumers with good value and high quality products that are reliable and safe.

Table 1. McDonald's Code of Conduct for Suppliers

<p>GENERAL PRINCIPLES</p> <p>McDonald's believes that all employees deserve to be treated with dignity and respect. In each and every aspect of the employment relationship, employers need to act towards their employees as they would themselves want to be treated. Moreover, McDonald's is committed to a policy of complying with the law wherever it does business, and to maintaining high standards of business conduct. As a result, McDonald's has established a well-respected record and reputation for business honesty and integrity. These principles apply globally, form the basis for McDonald's own ethical business practices, and are cornerstones to McDonald's success. McDonald's strongly believes that those suppliers who are approved to do business with the McDonald's System should follow the same philosophy, and, in the best interest of the System, McDonald's will refuse to approve or do business with those who do not uphold, in action as well as words, the same principles. McDonald's expects its partners in business to act with the same level of honesty and integrity.</p>
<p>COMPLIANCE WITH APPLICABLE LAWS AND STANDARDS</p> <p>All business activities of McDonald's suppliers must conform to all applicable national and local legal requirements, customs, and published industry standards pertaining to employment and manufacturing. If statutory requirements and published industry standards conflict, suppliers must, at a minimum, be in compliance with the one which, by law, takes precedence.</p>
<p>EMPLOYMENT PRACTICES</p> <ol style="list-style-type: none"> I. Prison or Forced Labor. The use of prison or forced labor by a supplier is absolutely forbidden. Likewise, the use of labor under any form of indentured servitude is prohibited, as is the use of physical punishment, confinement, threats of violence or other forms of physical, sexual, psychological or verbal harassment or abuse as a method of discipline or control. Suppliers will not themselves utilize factories or production facilities that force work to be performed by unpaid or indentured laborers or those who must otherwise work against their will, nor shall they contract for the production of products for McDonald's with Subcontractors that utilize such practices or facilities. II. Working Hours. Suppliers must ensure that all employees working on products supplied to McDonald's do so in compliance with all applicable national and local laws and with published industry standards pertaining to the number of hours and days worked. Such employees are to be provided with reasonable daily and weekly work schedules and adequate allowance is to be made for time off. Except in extraordinary business circumstances, employees will not be required to work more than either (a) the limits on regular and overtime hours allowed by local law; or (b) 60 hours per week, inclusive of overtime. Adequate time off shall be at least one day off per week, except in extraordinary business circumstances. In the event of conflict between a statute and a published industry standard pertaining to this issue, compliance must be with the one taking precedence under national law. III. Compensation. Supplier employees working on product supplied to McDonald's must be fairly compensated and provided with wages and benefits that comply with applicable national and local laws. This includes appropriate compensation for overtime work and other premium pay situations required by applicable national and local laws. If local laws do not provide for overtime pay, suppliers will pay at least regular wages for overtime work.

Source: http://docquinn_1.tripod.com/private_codeofconduct.html

According to Gray (2011) the following six steps should be taken by manufacturers to assure consumers that safety standards are sufficiently high: businesses should give safety the priority warranted by the product, businesses should abandon the misconception that accidents occur exclusively as a result of product misuse and that it is thereby absolved of

all responsibility, businesses must monitor the manufacturing process itself, when a product is ready to be marketed, companies should have their product-safety staff review their market strategy and advertising for potential safety problems, companies should investigate consumers' complaints. Meanwhile, many companies attempt to provide customers with dangerous or harmful products. Defective, addictive and inherently dangerous products and services (e.g. tobacco, alcohol, weapons, motor vehicles, chemical manufacturing, and bungee jumping) are not ethical practices in production. The company should also maintain a harmonious relationship with the environment. It is important to deal with ethical issues caused by new technologies like genetically modified food, mobile phone radiation, health etc. Certain other ethical issues are use of animals and disadvantaged groups as test objects (Singh et al. 2011).

Community, Society, and Nation. Community refers to the location like a city or town, in which the company is located. The community provides the company with the utilities and labour force that allow it to do business. The company contributes to the economy of the region in which it operates through the salaries and taxes it pays and very often determines whether the community prospers or not. It is very important to build positive relationships within the communities in which the company is located. The company should respect the traditions and cultures of every country in which it operates and should be sensitive to local customs. What is more, the company should take into account community complaints and make every effort to resolve these problems. For instance, responding to protests about chickens raised in cages in which they cannot move their wings, McDonald's, the largest egg buyer in the United States, issued new ethical guidelines concerning cage sizes and related matters. Its egg suppliers must abide by these guidelines if they want to cooperate with McDonald's. If the organisation follows all ethical rules, then it will be fully accepted by the society. Unfortunately, some organisations attempt to improve their profits by engaging in actions that can hurt communities and nations. For instance, one of these actions is air pollution that can negatively affect human health and cause coughs, burning eyes, breathing problems, and even death.

CONCLUSIONS

Although many people use the terms 'ethics' and 'morality' interchangeably, they do not mean the same thing. To my mind, ethics is a system of moral principles and methods of applying them, whereas morality is the differentiation of intentions, decisions, and actions between those that are right and those that are wrong. Managers can promote ethical behaviour by employees by limiting their opportunity to engage in misconduct. I am convinced that incidences of unethical behaviour can be reduced by ethical policies, formal codes of ethics, and ethics training programs informing employees what is expected of them and providing punishments for those who fail to comply.

Business ethics can be defined as the principles and standards that determine acceptable conduct in business organisations. In my view, ethics is very important in business because it builds trust and confidence in business relationships. Business ethics is essential for the company and its success. Companies with codes of ethics realise that these efforts can improve reputation, positively affect employees' commitment to work and enhance customers' loyalty. Business ethics is particularly important in dealing with customers. Increasing numbers of consumers are taking into account a company's behaviour when buying products. The organisation should communicate honestly and openly with the customers and understand their requirements. The company should provide customers with high quality products to build and maintain customers' satisfaction. As a consequence, ethical behaviour can be good for sales. If the company follows all ethical rules, it will be fully accepted and not criticised by the community. A company with a good reputation will find it easier to do more business and gain resources from stakeholders. As a result, behaving ethically increases company's profits. I believe that ethical behaviour can also bring other significant benefits to a business. For instance, it can; make employees want to stay with the business, reduce labour turnover and therefore increase productivity, reduce recruitment costs, attract investors and keep the company's share price high, thereby protecting the business from takeover.

In order to maintain a good reputation the company must abide by high ethical standards it has set itself and comply fully with all relevant laws and regulations wherever it operates. Unethical behaviour may damage a company's reputation and make it less appealing to stakeholders. In other words, if the organisation does not follow ethical rules, it will fail in the market. Companies that are committed to long-term success realize that creating a culture where ethical behaviours are rewarded and encouraged is the basis to survive today and grow in the future.

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