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The role of business education in business ethics

In the past two decades, many universities and business schools started to devote special attention to and study business ethics. Logically, this brings up the question of where this immense interest originates from and why studying business ethics is gaining significance precisely now.

To answer this question, we would have to go back to the 20th century and comprehend the dominant theories and doctrines in the economy and their consequences.

According to many, the most influential economist in the second half of the 20th century is Milton Friedman. His teaching is an extension of the classical economic school of thought and it is called Monetarism or quantity theory of money. This doctrine of Friedman believes that the maximization of profit is the primary and only obligation of the companies and that there is no possibility for a company to be a moral entity, considering that only human beings can be attributed with moral responsibility¹. Simply put, according to Friedman – “only money matter.”

The consequences of this doctrine became most noticeable in the last decade of the 20th century and the first decade of the 21st. The case of Enron is used as a textbook example.

Enron was an American company that traded with energy commodities, reporting a profit of over \$100 billion in 2000. When bankruptcy ensued the following year, the entire financial world was shocked. Employees were left without their jobs and retirement money, some of the investors lost their complete life savings. The case of Enron is remembered as the largest bankruptcy in the history of the USA. Subsequently, the CEO was sentenced for the dishonest calculation methods of the company, but also for attempt to conceal hundreds of millions of dollars from the financial liabilities of the company. Enron was succeeded by WorldCom, one of the most influential telecommunications firms in the world. The directors of this corporation falsely increased the value of the company by sizable \$11 billion. With hidden debt of over €14 billion, the Italian company Parmalat became the largest bankruptcy in the EU. A series of similar scandals and affairs were to follow.

¹ <https://www.nytimes.com/1970/09/13/archives/a-friedman-doctrine-the-social-responsibility-of-business-is-to.html>

By the end of the 20th century, multiple authors indicated to many abuses across the global economy.²

In all honesty, we should mention that the situation was almost identical during the designated “predatory capitalism” at the end of the 19th and the beginning of the 20th century. At that time, enormous profits were generated in similar manner and therefore, some of the richest people in America were called robber barons. This was vividly explained by Mark Twain when he was asked in what way can a man get rich. His response was: “Dishonestly if we can; honestly if we must.”

The consequences of the aforementioned scandals were huge company losses, layoffs, stock exchange shocks, doubt over the operation of other companies, considerable losses of the stockholders of the said companies and a sharp rise of distrust in the contemporary principles of business. Hence, this is not about the direct harm to certain companies, rather the harm that was inflicted upon the overall global economy, considering that during globalization, the economy is functioning according to the principle of “communicating vessels”, and the negative and unfortunate cases, scandals, produce a “domino effect” at planetary level. The image of the global economy is being distorted and the trust in business and social capital, which represent essential elements of the global economy, is being eroded.

All these scandals in the corporate world brought the “euphoria over a broad deregulation” into question, in banking, in the energy market, as well as in many other areas. Following the latest global financial crisis and the American mortgage crisis of 2008, the current methods of combination of the key regulation mechanisms in the economy are being questioned. This is especially prominent while facing the negative effects of the globalization, international terrorism, environmental problems, mass illegal migrations, growth of poverty and hunger, poor functioning of the international financial markets. To this, we should also add everything that emerged and is yet to emerge from the Covid-19 pandemic.

In this context, the issue of management, but also the issue of the values and mindset of those that are managing rises to the surface. Precisely for this reason, the debate about business ethics is taking up an increasingly important position both inside the companies and in the academic institutions that educate the businesspersons.

The issue of the relation between business and ethics can also be presented as a dilemma – do riches inevitably imply doubt, distrust, and envy at their origin, at the method they were acquired and accumulated with. There is an increasingly predominant opinion that business without moral criteria cannot provide permanent, stable, and significant business results, nor could it make a community happy and prosperous. Thus, there is a discussion about an

² "Corruption and the Global Economy", edited by Kimberly Ann Elliott, Peterson Institute for International Economics.1997.

introduction of an ethical code in the principles of business, operation, and management in every company. The latest research in this area has shown that absence of ethical norms in business results in immense losses both to the companies and the overall global economy. That is why business ethics is receiving an increasing attention both in research and in education.

Business ethics is an area that develops incessantly. Among the first to accept it were the multinational companies, banking sector, factories before their stock market launches, companies that are suppliers and partners of the companies with implemented harmonization programs, the service sector, and it is the turn of the state sector. To introduce business ethics, companies require plenty of effort and time, whereas the results can be seen in several years. In order to build its own organization culture, a company necessitates ethical values.

Business ethics demands leaders and managers with their own goal, their own values and integrity. Leaders that build sustainable organizations in the long-term, that motivate their employees to provide top service to the consumers and create a long-term value for the stockholders. In the long-term, adhering to business ethics ensures positive results, reduces unnecessary costs and losses, it creates a good business climate, stimulates entrepreneurship, and increases the trust in the companies, in the employees, in the institutions, in the business entities.

Therefore, business ethics is being taught in the business schools as a sum of personal and collective moral actions that are used in the course of every form of business activity, which determine the borders where one should stop. Determining these borders is necessary for the business activities, actions, and decisions to avoid unfavorable relations inside the companies and their surroundings. The borders are always within the legal norms and rules; within the good business relations and habits in the economic and social space; within the personal position and situation in relation to the others we do business or have human contact with.

Communal life, the interdependence of people leads to series of social processes that determine the content, form, and the course of action of the individuals and groups in business. In the present situation of Covid-19 pandemic, the companies bear the responsibility of not only their survival, but they also must act in accordance with the societal and social circumstances and the demands brought about by the pandemic. Companies are asked to show socially responsible behavior, which is based on the fundamental ethical principles. These ethical principles should be embedded in every company through the ethical standards of the very companies that are manifested through ethical codes, ethical boards, coaching and trainings, thereby, becoming an integral part of the organizational structure. While the employees may have already developed a system of personal ethical standards, they should accept the ethical standards of the company and work in accordance with the ethical operation of the company.

In their programs, business schools devote special attention to the Social Responsibility of the companies. This is necessary nowadays, considering that socially responsible companies are recognizable in their surroundings. With their ethical behavior they attract new employees, motivate, and retain the existing employees, ensure long-term competitive advantage, and

create an image of the company as an entity with dignity, honor, reputation, and due respect from the community it is active in, since it contributes to the prosperity and success of the community it belongs to.

As opposed to the companies with social responsibility, with developed concept of business ethics, there are companies that are missing this and which in the course of time accumulate ethical shortcomings and show unethical operation, both on the part of the employees and on the part of the management and the members of the bodies with managing and supervisory competences. Commonly, these tendencies are one of the reasons for the failure and destruction of many companies. In order to avoid this, we must prevent unethical investments. Prevention is the first and most important step to suppress the unethically founded practice. This could involve the internal and external prevention. It closely resembles what we now call preventive medicine.

We can conclude that business ethics is becoming an increasingly inevitable human, but also business quality. There is almost a consensus that good business behavior has a profound impact on the business, namely, due to a single fact – people seek to cooperate with those they like, which are kind, which know how to establish a contact, which accept the individuality of others and which adhere to certain generally accepted written and unwritten rules in their communication.

In fact, business ethics is a sum of those written and unwritten rules. A sum of values such as honesty, fairness, openness, business honesty. In other words, it is the manner a certain company does business in. Does it treat its employees with gratitude, respecting their personality and dignity? Does it pay off the money to the suppliers at the agreed time? Is there an openness toward the local community and does it assume responsibility for its own decisions and actions?

Business behavior is also a sum of generally accepted rules, actions and procedures that are deemed necessary or acceptable in the mutual relations of the businesspersons, regardless of their position, title, or profession. To apply ethics, each individual is required to adhere to a high level of loyalty to the society, family, working environment, profession, company...

Today, business schools are facing a big challenge. They should provide a response to the future businesspersons, managers, leaders concerning the basic question: how to remain honest and become successful in the present world where everything is relative and where moral is brought to a point of absurdity.