

# Conceptual Framework of Business Ethics

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**Abstract:** The importance of business ethics in organizing has been pursued for several years from a variety of perspectives. Nowadays managers consider introducing ethical programs into their organizations as very powerful activities that are socially rewarding. However, examples from the business community indicate that organizations that stakeholders consider ethical create several competitive advantages. These benefits include a higher level of transaction efficiency, higher engagement and employee loyalty, a higher level of perceived quality of products and services, a higher level of loyalty and customer retention and better financial performance. This article analyzes the schematic model of business ethics, which is based on three main components that are interconnected by five subcomponents. The introduced model contributes to the creation of a conceptual framework for business ethics and provides opportunities for further research in the field of business ethics.

**Keywords:** business ethics, framework of business ethics

**JEL Classification:** C22; C51; Q11; Q13

## Introduction

The pursuit of business ethics based on integrity has contributed to the effectiveness of the organization in several basic ways. Companies that have adopted conceptual programs are caught earlier and are dealt with at the outset. In some cases, the integrity approach can deliver enhanced competitiveness: it makes it easier to provide quality products in a fair and reliable way. It improves relations with constituencies and can lead to a more positive stance that promotes creativity and innovation. And although the organizational integrity approach cannot guarantee an improvement in the performance of the bottom, it is important to understand that ethics is a very practical matter.

The purpose of business ethics is to strengthen our lives and relationships both inside and outside the organization. Achieving and maintaining integrity requires intensive engagement and engagement of managers throughout the company. It goes beyond the so-called "tone" set by senior managers. It includes the specific tasks and behavior of managers, starting with the development of the integrity framework.

Managers should ensure that the company's system supports responsible behavior. Then they should personally model responsible decision making. These leading tasks are essential for building a high-integrity organization.

### 1. Definition of term

The discipline dealing with ethics in relation to entrepreneurship is called business ethics that has the nature of the interdisciplinary science area applied. Business ethics are defined by several variations, based on the general moral standards of society and responds to the societal transformation and cultural background of society. It covers a broad area of examination of the various institutions linked to business activities and it is therefore important to note that it is not possible to reduce it only to an organization or a company from the point of view of the investigation.

Concept of business ethics is defined by (Remisova 2011, 55) as applied integration ethics examined by the interactions of ethics and economics. It analyses the moral norms and principles for the functional conditions of business and economy at all levels. According to (Bohata 1994, 8) This reflects ethical principles in all business activities involving individual and corporate values. The above definition in this post is based on contributing to the fulfilment of ethical principles and the shaping of the ethical business framework.

### 2. Theoretical background

In recent decades, there have been several factors in the foreground of ethical issues and the business ethics started focus on areas as:

- Globalization-global expansion has brought greater participation in diverse cultures and socio-economic systems. These developments become more important in ethical considerations — for example, the different assumptions about business responsibility, the business practices of accepting values to build a cohesive and successful organization.
- Technology-added capabilities of technology have created a new level of transparency and immediacy in the field of business communication. Nowadays, trading around the world is more exposed than ever before.
- Competition-growing competition brings extra pressure to lower corners. At the same time leaders are looking for new ways to differentiate their societies and move them to a new level of excellence. Some believe that a proactive ethical stance can have a positive impact on the result.
- Public perception and law-perceived decline in social ethics, which brings uncertainty. Managers no longer feel that employees entering their companies have the required ethical values. The public's expectations have changed: what was once considered acceptable is now easier to explore. New laws and increased enforcement efforts have increased the risk of personal and organizational responsibility. (Paine 1996, 13)

Theoretical starting points of this article is an elementary question: *What makes sense to associate an area of ethics with the field of business?* Response Perspective Maybe Divided into three planes. The first plane is the negative definition of the relationship of ethics and business. Lies in Reductionistic View Business as a profit generation, where everything else is only an obstacle to achieving such a goal. Friedman (2007, 1) Second Plane Characterizes The neutral definition of the relationship, namely that business ethics have no impact on its economic efficiency, is an additional dimension to the company's secondary functions in terms of its organization. The third

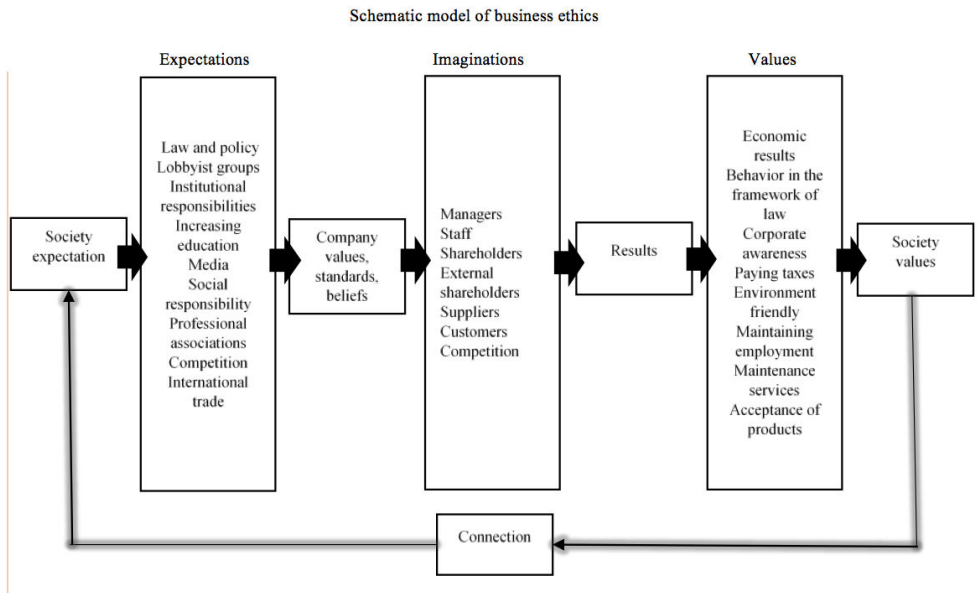
plane defines the relationship positively so that ethics in the form of ethical dimensions directly affect the economic efficiency of the company.

The ethics visibly enter several areas where business is a major or significant activity. Such areas are:

- a. area of *international trade* in which it explores issues related to cultural relativity and an effort to apply universalistic ethical principles
- b. area of *financial market* in which it examines the issue of ethical behavior of financial institutions, banks, exchanges and the like
- c. area of *human resources*, in which it examines the ethical problems of relations between employees and employers as well as relations between employees of each other
- d. area of *marketing and sales*, in which it examines ethical issues related to the use of tools to convince the customer of the purchase of goods or services
- e. area of *production and services*, in which it examines whether all the conditions and circumstances of the manufacturing process or the provision of the service meet ethical standards and standards
- f. area of *intellectual property*, the importance of which is increasingly increasing and is intended to establish clear rules for the ownership of trade marks, patents or designs that constitute commercial know-how
- g. area of *technologies* where the task is to determine what its use is ethical and where abuse is already in place
- h. area of *environmental examining* the environmental impact of production and business activities on the surrounding ecosystem

Various issues and subjects exploring business ethics are significant. Some of them are at the level of macroeconomics, some vice versa microeconomics. Between those areas we consider the area of human resources, marketing and sales, production and services and in part intellectual property, whose issues anchored in ethical instruments can indirectly affect economic results.

A better idea of the interdependence and breadth of the relationship of ethics business is shown schematic model published by Svensson & Wood (2008, 304) shows all areas that are intersected (see the figure 1):



Exposure 1

Society expectations and its individual items act as a defined space or barrier which business activities can be implemented. At this point, they form an ethical basis for business. Postulate are here the core business objectives as *Services Society* as well as accountability to it. The society gives legitimacy and power to business. In the long term, those who do not use the power in the way the society deems to be responsible will gradually lose it. This means that, in addition to the economic gain for a close group of owners, investors or shareholders, the purpose of the business is to improve and create wealth for society. (Svensson & Wood, 2008, 306)

The closer view at the expectations factors, important forming the way the society looks at that company and its activities. All individually and collectively affect acceptable behavior.

- a. *The law and policy*, they represent a factor which constitutes a security in the event of failure to selfregulation the mechanisms of undertakings and vice versa are the primary instrument where no selfregulation mechanisms are at all. The basic principle in the creation of laws influencing business is "fair competition". The government is under the spotlight public to ensure that the business will have clear rules. It is important to note that these laws as well as institutions arose as a response to precedents of unethical conduct in Business. (For example, we can use the creation of a Stock Security Committee, which was created in response to the fall in the Stock Exchange in 1929 and the ensuing economic crisis. Environmental protection agencies, which arose as results of frequent environmental disasters and of business activity or so-called. Sarbanes-Oxley Act, which modified the direct legal responsibility of the Executive Directors and the board of directors in the case of financial fraud as results of Enron cases). (Hartman, Laura 2005, 259)
- b. *Lobbyist groups*, they represent an equally powerful factor that can affect the business environment and contain ethical principles standing in the background of their activities. Such groups may include environmentalists, human rights activists, minority rights or conservative activists for the rights of the unborn child. While the primary objective of these groups is political influence, in the case of political establishment their views, this will inevitably affect the economy, for example by changes and amendments to laws that have a direct impact on business activities.
- c. *Institutional responsibility* is another factor of company expectations from the organization. The company is expected to see further how it is own profit and takes the role of a wider environmental and social transformation agent. Rather than explicitly defined expectations, this is a set of unwritten rules for the appropriate management of the company. These expectations continuously grow, linked to the globalization of the business and the inevitable increase in the impact of companies as social institutions.
- d. *Increasing education* is a factor that is expected to more consistent and a more critical view of business activities from company members. In retrospective view, the driving force of social movements has been educated by the masses that have been able to influence political events and as mentioned above, political changes have subsequently been shown in the economic area, which led to changes business activity closer to ethics. For this reason, the factor of increasing education is the right, that affects and determines the movements in ethics and business.
- e. *Power of media* is a factor that significantly interferes with the business life and may affect the functioning and the mere existence of the company in a minor way. The media can be the guardian of ethics in the business world. On the other hand, they can be abused by competition on discredit. In any case, they are implicitly expected to be *Social conscience*, which means that the societal requirement will focus on business-related problems that the company considers relevant and, on the other hand, ignore the problems irrelevant.
- f. *Socially responsible managers* are a factor whose significance has risen how to find out scams of major successful companies, middle and top management. Socially responsible managers must act ethically not from fear before the snapping that they are doing something wrong, but on the contrary of their own will, on their own responsibility, and especially since it brings success to company. (Hartman, Laura 2005, 281) This proceeding sometimes includes non-conventional decisions which may stand as established ethical practices and most are needed in non-standard situations. Socially responsible managers are needed in leadership, new challenges and inspiration. Social responsible managers are a factor that makes business a space for human development instead of his exploration.
- g. *Professional associations* specify the role of the members of these groups. If the company has expectations for businesses and their activities, the professional associations will reflect and incorporates these

expectations into their roles, which the members represent. They shall then be checked by the undertakings which identify them, whether they fulfil all the conditions arising from the professional field.

- h. *Competition* is a natural phenomenon in the capitalist economic system. However, societal expectations are to set the boundaries of business behavior towards competition on the principle of fairness and to customers on the principle of trust and Veracity. The nature of the capitalist economic system depends on the existence of free, open and fair competition.
- i. *International trade in integrity* is a factor of expectation that the company requires businesses to behave equally and to offer a qualitatively identical product or service in one country as in other countries. This expectation has taken on the importance of expanding businesses into developing countries, where in some cases they abuse a weak political system and their legislation on unfair dealings against customers in these countries. Another way of abusing is the important level of corruption in these countries, where you are much easier they can buy their intentions from the local government because the defensive mechanisms against it literally do not exist. As the company in developing countries is not sufficiently prepared to withstand non-ethical business practices, these expectations and the control of their activities tend to be related to the companies of developed countries. (Svensson & Wood, 2008, 311-312)

All the above-mentioned expectation factors affect *organizational values, standards and beliefs* how they apply. Mentioned schematic model values, standards and beliefs constituted in the organization refer to the ideas that has about customers, competitors and general companies.

Business to be considered ethical must be reflected in the Variations Hotels Elements, their properties and have a certain form of relationships to achieve a balance between maximizing profit and social responsibility for business. Nowadays, companies are aware that the company can be successful and competitive only if it is managed to balance the interests of the groups concerned by (Putnova & Seknicka 2011, 111):

- a. *Managers*, they are one of the key carriers of change that lead to better corporate culture and ethics in business. Managers should be a model for others, especially for their employees, because they often mimic the behavior of managers. Their behavior should be consistent with the official values of the society. The ethical behavior of executive directors and top management is often the Achilles heel of the company, because in fact there is a precise opposite of what is called positive leadership. (Svensson & Wood, 2008, 313) Managers should be perceived as those making decisions promoting the value of a company regardless of the complexity of a decision.
- b. *Staff*, they are an element of an organization that needs to align their internal objectives with the objectives of the organization. If identify with the ethics of an organization, it is more powerful to commit, which is reflected in the results as well as the overall corporate culture.
- c. *Shareholders*, they are a vital impetus for every business as the holders of investment and vision of future success. Ethically correct approach requires leadership to be transparent if the investments are not returned, with each shareholder being held equally, regardless of the proportion of investments in the undertaking. If the shareholder's business ignores, it can expect a firm response from their part, which can only harm the company.
- d. *External shareholders* are a group that is not directly involved in the daily running of a company, not even in individual folders. This group sees the business's reputation from outside and checks whether the organization is seen as a positive phenomenon in company, and that its products and services meet positive feedback.
- e. *Suppliers* should be respected in the organization as equivalent partners involved in learning ethical values and perspectives and helping them create and improve them. However, it is often the opposite. Suppliers are exerting pressure and increasing demands for example in pricing policy, threatening them to be replaced by others unless they meet the conditions and requirements. It is important alert, that suppliers, as part of a comprehensive trading relationship mechanism, who can see an organization from a unique perspective than employees but also customers, can offer a different perspective that can benefit both sides.
- f. *Customers*, they are another important group. There is still a growing requirement to make a concept called. Relationship marketing or marketing aimed at maintaining and caring for customer relationships has become an essential part of business practice. Customers are a group that directly affects profit undertaking. Therefore, each step of the company's agents and employees must consider the fact that the conduct is consistent with ethics and takes account of the interests of the customers.
- g. *Competition* is the most problematic group, as mentioned in the context of ethical behavior. The market economy system is based on competitions, the basis of which is the analysis of the strength of the

competitor, and the follow-up of possibilities to maximize its ability to weaken and overcome. On the other hand, there must be limits which cannot be exceeded or in a competitive fight. Competition must be treated equally with respect and empathy, because if this assumption is not respected, at least an organization is at risk of loss of reputation.

Business ethics we already named and characterized by two large groups of business ethics model, a group of expectations and a group of ideas. The last group is the group of values, which are *results* interactions between societal expectations and ways such as interpreted in the ideas. Results its possibly also characterize answers to questions like: *What is the economic effect of an organization activity? Was the action of the company in the frameworks of law? Is the action of an organization inclined to the environment? Are the products of a company acceptable in terms of health and safety at work?*

- a. *Economic results* or profit companies are the natural result of the business. Profit is a way in which an organization can evaluate its success or failure and is an essential feature of market capitalism. On the other hand, it is not an innovative idea to reduce business objectives only. Today, it has become increasingly obvious in developed countries that the statement of profits or losses is only one of the set of criteria that the company assesses the activities of an organization.
- b. *Behavior in the frameworks of the law*, it means the assumption that profit can be achieved without being infringed by law. The law is a minimum of ethics, the conclude that if an organization is no longer acting ethically, it shall at least comply with the law. Legislation will never be a panacea, but there must be at least a way to determine the boundaries of the forbidden and allowed.
- c. *Corporate awareness*, it is a requirement for a company to conduct an undertaking in the context of a conscious good, thus actively engaging in socially. The causes of a change in view compared to the past when it was enough for an organization to not act to be a complex to look for in a wider range of investors, but also in changing the social consciousness of the developed world. Businesses have begun to realize that they can benefit if they are suitably socially involved, such as the alliance of companies with charitable organizations, where a defined share of profits is distributed this organizations. It is the situation where all parties are satisfied.
- d. *Paying taxes*, it is one of the most problematic areas. On the one hand, the company's maintenance and development needs the means that mostly come from selected taxes. On the other hand, the tax policy often leads businesses to search for a variety of ways to avoid them, as businesses can lead to a mere collapse. This dilemma can be addressed through a compromise that stands at the basis of the obligation of each individual and the organization to participate in maintaining a functioning company.
- e. *Environmentally friendly*, it is now one of the most widespread factors that consolidate organizations towards businesses and their activities. They guarantee that their activities in developed countries do not appear to have any signs that might discredit them. In addition, the requirement for similar behavior in countries whose control mechanisms are not at the same level and in which this deficiency is abused in the environmental damage of the business.
- f. *Maintaining employment* or sustaining employment is the result of a company policy that often teetering between the dilemma of reducing costs and increasing efficiency by moving divisions, changing suppliers, outsourcing, leading to a reduction in the initial workforce or keeping them, but at the expense of lower profits or even higher losses. This point also includes the carrier Issue for this article to prove that one view does not exclude the other and is relevant to the possibility that an organization can be economically effective in the long term without going through a cost reduction policy.
- g. *Maintenance services*, it is the political decision of an organization to keep the service or product available, regardless of whether it is profitable or not in the place and time. As an example, some banking services that are accessible and feasible through the Internet are available, and there is no need to operate a stone branch in a small town with workers. But not every customer is technologically literate and flexible enough that it can reorient to such a way of using the service. The friendly decision of the company to preserve the original state is the expression of corporate culture and ethical access to the customer.
- h. *Acceptance of products* company varies according to increasing criteria and entitlements. If twenty years ago some tobacco marks were their logos with cultural icons, today is the primary information about their impact on the health of the customer. Similarly, we may provide a fast food business where the pressure on the way meals, the food used, or the health risk associated with their consumption can be strengthened. (Svensson & Wood, 2008, 318)

Analyzed model demonstrate conceptual framework of business ethics, which is possible to be as a complexity of business-related problems and ethics. Business ethics as one of area exploring disciplines of ethics and business.

Not yet completed and theoretical results this contribution they can complement the knowledge that is so far more inclined to the point of view that in the long run is ethical conduct in business more effective than its absence.

As evidence, below are some situations that this claim supports:

- First evidence is based on the conclusions of the American studio and notes: "*Generally, customers prefer to pay a higher price and maintain links to an organization showing trust than they should pay a lower price to the company, which ultimately does not deliver the goods or service at the required quality.*" (Svensson & Wood, 2008, 319) The original text uses the expression *Process Quality*, which refers to the customer experience with the resulting product, whether in the form of goods or services and proves that the costs associated with the application of ethical principles are refundable.
- The second evidence is a research comparison of the 350 largest companies of the London Stock Exchange. Research has divided companies into two groups. The first group consisted of companies having a code of ethics and a reputation for ethical behavior. In the second group absented any character of ethics in the business. Research has shown that ethical organization have shown higher financial stability and health features in three aspects:

*Value added in the stock market*, where they are more able to sell their shares, a larger group of investors.

*In net economic added value*, where they showed a greater difference between net profit after tax and the cost of securing and protecting investment capital.

*In the price/profit ratio* as one shared sold in the stock market. (Bowie & Schneider, 2011, 247)

- The third evidence reports to small and medium-sized companies and notes that the application of ethical models is much easier, and the resulting effect of their use is visible faster. The ethics model of fair dealing will guarantee a lasting relationship between the manufacturer and the seller. Thus, the basic ethical principle in this case is mutual trust.

For similar evidence it can also be considered facts that show a link between neglecting ethical principles and economic efficiency. Absence an ethical principles and instruments in the companies has long-term slowing its economic efficiency and often leads to company bankruptcy. Examples have been noted in recent years. From financial scandals relating to misleading statements in the accounts of large firms such as Enron or the world to speculation in the financial market for toxic securities, which ultimately led to the financial crisis and the bankruptcy or the prosecution of certain The US financial institution. (Bowie & Schneider, 2011)

If one is really interested in organizational efficiency and organizational development rather than just avoiding accountability and an approach based on integrity is much more promising. But before the organizational integrity approach can work, four challenges must be met:

- Creating an ethical framework.* Organizational integrity requires a much more prominent concept of organizational identity and accountability than its compliance.
- Reconciling practice with the principles.* This can be very problematic, especially in organizations whose processes, structure, system and decision-making are contrary to the values and principles adopted by senior management
- Overcoming cynicism.* This is one of the aspect of self-discipline, dishonesty and fakery as the core of human behavior. People often accept cynicism as a self-defense mechanism. This reference framework often prevents people from seeing the reality and can act as a barrier to the creation of ethical values.
- Solution of ethical conflicts.* This is a conflict of responsibility. Using a creativity, a potential conflict can be solved before it develops. However, severe compromises must be made, between the right and right, between two "goods". (Hartmann, 2005, 214)

Paine (1995, 16) proposed an ethical compass as a framework for the Integrity of Business Ethics. A useful starting point is to start answering some questions about four basic sources of responsibility:

- Purpose – what are organizations a fundamental reason for being-its ultimate goals?
- People - who are the constituencies to whom the company is responsible and who depends on success? What are their legitimate claims and interests?
- Strength - what are the organizational authorities and the ability to act?
- Principles - what are the duties or responsibilities of organizations, as well as their aspirations and ideals?

If used as a set of reference points, these issues can help to create a framework (see the figure 2) to compare progress on ethical issues as is mentioned in Perspective in Business Ethics by Hartman, Laura (2005, 281).

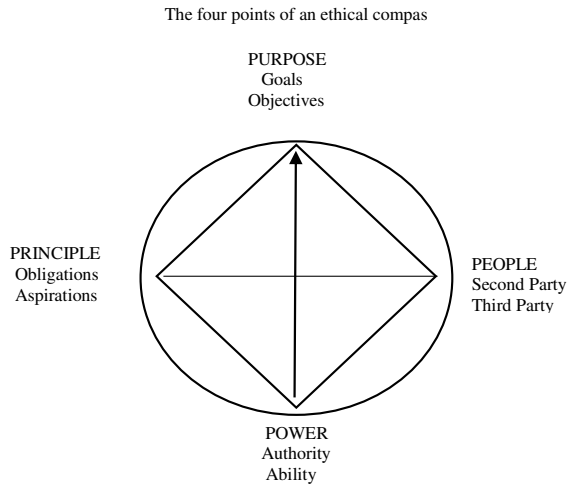


Exhibit 1

About the above these cases is not only a violation of the ethical principles, but also about breaking laws. A better example, although externally not as significant is the effect of, what creates a loss of reputation, the image of a company due to the absence of ethical principles in the conduct of the company externally to society as well as to the inside of the employees. The results can be:

- Loss of customers, which automatically leads to lower profits.
- Disrupting the relationship with suppliers, which is reflected in quality and indirectly again on the profits of the organization.
- Reducing the work ethic of employees, leading equally to decreasing quality and lower profits.
- More problems in acquiring new talents.
- To the decreasing value of the company in the stock market.

A value-based cultural approach to business ethics and compliance management works best. This approach requires the sincere commitment of management at all levels, including ongoing attention to key issues as fair treatment of employees, reward for ethical conduct, concern for external stakeholders and consistency between words and actions. The ethics program should be values-based, motivating employees to aspire to ethical conduct, encouraging them to question authority.

## Conclusion

Based on above mentioned examples and research on disciplines business ethics it can be formulated a theoretical basis of this contribution: *"Unethical management almost necessarily leads to financial problems. Existing customers will be lost, and companies does not acquire. Sales will be reduced, which will also cause a reduction in the credit for which the renewal costs rise. This can lead managers and executive directors to reduce the costs associated with the comfort of employees, which will be negatively reflected in the results. In addition, bad practices alert the legal representatives, regulators and applicants to the situation and lead to their intervention, which will also lead to higher costs and lower profits"*. (Bowie & Norman, 2000, 152)

The analyzed schematic model of business ethics based on three main components and interconnected by five subcomponents contributes to the creation of a conceptual framework for business ethics and provides opportunities for further research in the field of business ethics. It provides a guidance on what and how to explore a common effort to understand the phenomenon known as business ethics.



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