

Ethical Management – Competitive Advantage Relationship

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Abstract: The paper aims at emphasizing the importance of business ethics in long term competitive advantage.

Ethics is the basis for human relationships. It is reflected in the quality of our relationships and all members of our society must understand the importance of ethics as it is the basis of a civilized nation.

Business ethics is concerned with the study of ethical principles and rules in economic context; it offers a set of useful decision instruments for the company's strategies, for solving the conflicts between the groups in economic contexts: employers, employees, managers, shareholders, customers, public institutions etc. The ethical behaviour results can be seen and felt in time.

The ethical management is long term profitable, and the relationship between ethics and competitiveness is evident. The future successful firm is a socializing one, but socializing and being successful in business environment means being able to gain all business partners' trust; the company cannot meet these objectives without the implementation of ethical values and norms.

The company gains its reputation in time, as a direct effect, not only of the high quality products and/or services offered but of the way it interacts with its partners (customers, suppliers, banks etc.).

The paper presents both the ethical code and the ethical management in Romania and we have shown some ethical problem sources of the Romanian business environment.

The specialty literature offers numerous definitions of the term "ethics". It is derived from the Greek "ethos" (custom, character, moral) and it refers to the set of norms that regulates human behaviour in society, rules that are used in life in order to choose the good and take away the bad.

"The philosophical theory on moral life" is one of the most integrative and clearly formulated definitions in specialty papers. The moral has a system of norms and rules; they are freely assimilated by the individual and cannot be in contrast with what he himself admits as good, worthy of respect, not

harmful and not dislikable. At the basis of moral there is a set of principles: the principle of dignity, the principle of responsibility, the principle of freedom, the principle of solidarity, the principle of rightfulness and the principle of charity.

Ethics is "a set of moral principles and assimilated values that rule a culture, group or individual; a moral maxim or behaviour rule" (Random House Webster's College Dictionary, New York).

The Romanian Explicative Dictionary, 1998 edition, defines ethics as being "the science concerned with the study of moral principles, their historic development laws, their class content and their role in social life; the whole of moral behaviour norms belonging to a class or society".

"To be right", "to be honest", "to be fair", "to be responsible", "to be respectful" are ethical terms; they represent moral standards that are different from individual to individual due to the fact that our values are different.

It is evident that ethics is the basis of human relationships and it is reflected in the quality of our relationships. It is important to understand the role of ethics as a healthy ethics is the basis of a civilized nation. Ethics must be present in our way of reacting, no matter what role we have in society.

Ethics offers us a set of useful concepts and theories in order to consider whether a problem is moral or not; it does not offer us advice or miraculous solutions, but supports a rational approach of all aspects in order to distinguish between good and bad, right or wrong, fair and unfair etc. Ethics does not assert a certain decision, but offers types of reasoning that can help individuals adopt the best decisions.

As general behaviour principles or ethical codes, ethics is applied in the general management, human resources management, crisis management, all types of marketing communication etc.

Business ethics must be regarded as a systematic study of business moral aspects, as a reflection on moral consequences of decisions. It is, in fact, a science placed at the boundary between moral philosophy and management that studies the ethical rules and principles in economic context that offers a set of useful decision instruments for company's strategies, for solving the conflicts between groups in economic contexts: employers, employees, managers, shareholders, customers, public institutions etc.

We all know that profit is an indicator of business success and it represents the main purpose of economic activities, but I think that honor must prevail as it is more important, providing both business security and safety, offering credibility to the company, constant and trustworthy business relationships, a profit, possibly lower but sure. Therefore, ethical management is long term profitable, and the relationship between ethics and competitiveness is evident.

Business ethics does not imply only observing the law, solving or foreseeing some conflicts, it means finding a balance between the shareholders' interests and the involved groups that is partners, clients, consumers, society as a whole.

In the new business environment companies are no longer autonomous, independent, but units depending on each other, forming a network where success and failure are shared. The greater the number of units observing a set of elementary rules (fairness, truth, equality, seriousness, responsibility, honesty, respect, rightfulness) is the greater the market players' winning chances are. Thus, the decay of a firm can lead to a chain fall of the others. If, in a group of companies with business relationships, one of them does not observe the ethical principles, it will bring disadvantages to all the others. Therefore, companies with an ethical management try to attract responsible collaborators and to send away those who do not observe the minimum ethical demands.

The ethical principles and norms that must be observed in management are minimum demands of good sense. Their application shows that the company is a trustworthy partner and thus it will have long term collaborations with its partners.

A company has an ethical management if it has a transparent, clear, precise, explicit offer, thus gaining the customers' trust; if it keeps its promises (agreements), showing respect and professionalism; if it respects its business partners and customers and considers their gain; if it assumes the responsibility for all its actions; it concludes agreements, observing at the same time the valid legislation; if it proves to be honest and fair when it negotiates an agreement or when it offers information on its products and/or services; if it is fair and admits whenever it is wrong in its relationships with business partners and customers, looking for solutions to all problems.

The company gains its reputation in time, as a direct effect, not only of the high quality products and/or services offered but of the way it interactions with its partners (customers, suppliers, banks etc.).

The business ethics importance and status have become greater and greater due to the high costs of unethical actions. The unethical action and corruption have a too high cost. The payment does not consist only in a sum of money (fees, penalties, damages etc) but also in the lost of

customers', collaborators', business partners' trust. Thus, the image of the respective company is damaged.

Unfortunately, one of the management errors is that business ethics is not regarded a profit making management strategy. In some cases, business ethics is applied as the "me, too" strategy, that is the imitation of successful brands policies or otherwise said "we do ethics because it is in fashion". Sometimes, business ethics is seen as a simple act of charity of the management or of the shareholder and not the result of market surveys. Therefore, social responsibility programs are reduced only to sponsorships of different activities (sportive, show-business, relaxation etc) or to the offer of sums of money or products to under-privileged persons.

In modern corporations there are already corporate ethics managers, the number of ethics advisers has become greater and greater and ethical monitoring and evaluation activities are intensive. Therefore, I consider that Ethics should be studied by economic and public administration students.

An interesting concept in the managerial ethics debate is the social responsibility on three directions:

- social obligation – activities meant to create and increase profit, observing the rules of a game, in a free competition, with no deceit and fraud;
- social reaction – a behaviour has to be in accordance with the expected values, norms and performances. A company with minimum social reaction means the observance of environmental, ecologic and social norms of its actions. When the organization has a strong social reaction it is involved in solving social problems;
- social reception – the responsible behaviour is anticipant and preventing. The term of social reception has recently appeared and it refers to defining the actions that necessarily include social reaction. The characteristics of a social receptive behaviour include taking position in a publication, anticipating the future social needs and the action taken to meet these social needs, the communication with the government on an existent or desired legislation etc.

Hereinafter we will make reference to the ethical management in Romania.

Business ethics has a relatively short history in the Romanian economic and cultural space. It was introduced not as a result of local business man's researches, but as an import product of the great corporations.

Corporations invest in community programs and know how to promote this. Monica Tatoi, Romania Oriflame manager, said that it was ethical for a part of a company' profit to go back to the social group, who took part in its realization and that "the cosmetics market has decreased in lei with about 15% in the last two years. My sales increased with at least 10% in euro and if we add the devaluation of the national currency as compared to euro, they increased with about 25-30% in lei last year. Oriflame is on the second place, after Colgate Palmolive, according to Euromonitor and this must be probably due to social responsibility." "Avon Cosmetics" Ltd is known as an organization fighting against breast cancer by selling the "pink ribbon" products and by attending events for this campaign; McDonald's whenever opens a restaurant it makes a donation (between 5,000 and 10,000 euro), for the development of a local social project, important for community (orphanages, schools, kinder gardens, hospitals etc). As well, McDonalds is involved in projects for children. The list can go on: Romtelecom and the Romanian Commercial Bank sponsor different sportive competition; the foundation Vodafone Romania allotted, in 2007, over a billion dollars for projects concerning the under-privileged children, sum announced at the beginning of the year. The programs developed in 2007 covered some main directions: medical assistance for children, medical equipment, the prevention of school and family abandonment, education programs for children with special needs (HIV, autism, and handicap). Motorola Romania offered financial support to the non-governmental organization Interbalkan Cooperation for the construction of a Counseling and Education Integrated Centre for rom children in Targoviste (2008). Thus Cristina Stancescu (Head of Communications & Public Affairs, Motorola Romania) declared that: "Over the years, Motorola actively contributed to numerous projects for under-privileged children, and this project is another proof of our conviction that we must give a helping hand to the community where we develop our activity. We are glad that our help offers children a better future."

Hereinafter we will emphasize the differences between donation, sponsorship and social responsibility:

- Donation is a classical method by means of which a company offers financial support; it may be a part of the social responsibility strategy of the company or may be an isolated charity act;
- Sponsorship is another classical method of financial support, which brings advertisement and is deducted from the income tax up to 0.3% of the turnover;

- Corporate social responsibility can represent the sum of a donation and sponsorship in a long term strategy, but can take other form as well: voluntaries, expertise, services that are gradually offered to beneficiaries. Although it supposes a greater effort, the benefits to the company's image are considerable.

Ethical management means taking into consideration other norms than those imposed by the law in decisions and strategies. Business ethics has a cost; it implies money, human resources and time, business ethics and social involvement of the companies are variants, options not determined by the law. Thus, Gilda Lazar (Corporate Affairs Manager of JTI Romania) who was awarded several prizes for Corporate Social Responsibility programs that he coordinated, states, in an interview to the 22 Magazine, October 2006, no. 868 (Ethics and Business Communication) the following: "If you refer strictly to sponsorship, it is a disaster. The sponsorship law does not encourage you to invest in this field. If you refer to CSR, in general, than this is not regulated. As when you say social responsibility, you don't refer strictly to philanthropic programs, to sponsorships, to donations, to voluntaries. You refer to structured programs that reflect the vision of a company, its set of values and how it understands to overcome its position of producer of goods and services and to become involved in the community where it develops its activity. There are here the environmental policies, the work environment and even the incentives the employees receive. And I don't think it is about regulation, but of self regulation, and this is different from company to company."

In the present context, companies are no longer assessed only according to the quality of their products and/or services. The modern organization is assessed (beyond its economic performances, the management quality and the communication policy) also according to its contribution to the social life of the community it belongs to. From the legislative point of view, a company is an artificial person; the concept of CSR accentuates the dimension of "person" of an organization. That is it requires the latter to be a citizen, an inhabitant, a member of the local community and to actively involve itself in developing projects for the community.

It is difficult to make a distinction between inequality and immorality in the Romanian business environment and this is because the immaturity of the market, the legislative insufficiency and its opposite, overregulation, allow the speculation of legislative ambiguities and slow down the process of formation of business ethical norms and practices. Most problems in the Romanian business environment are in the area between the politics and business: corruption, conflict of interests, ambiguities left unsolved as the wealth control, lobby, the sponsorship of political parties etc.

There is a source of ethical problems in the Romanian business environment, out of which:

- the state intervention on the market in order to grant facilities to some economic agents (subsidies, indemnities, decreases, debt repayment schedule);
- legislative incertitude, differences in interpreting the law;
- the state intervention on the financial market and in the price policies of some basic products and utilities ;
- quasi monopoly policies of corporations and of public utilities suppliers, the non observance of agreements (in the relationship producers-consumers);
- the non organization of public auctions where it is the case and the preference for some companies in concluding certain agreements (in the relationship among organizations);
- moonlight work, salaries under minimum income, discrimination, non payment of the due incentives, non granting of the full leave and other abuses on the employees (in the relationship employer-employee);
- the nonobservance of the Domestic Order Regulation, Of the Organization and Functioning Regulation, of the Ethical Code and of other norms and regulations , by the employees at their work place (the relationship employee-employer).

The Romanian management has to understand the importance of ethics, to be convinced that this leads to the creation of long term business relationships, the increase of the organization credibility. Business ethics must be a major component of managerial techniques and strategies. Integrity and ethics must be regarded as elements characteristic to the business management method. Even more, the future successful firm is a socializing one; for this it has to gain all business partners' trust. The use of ethical principles contributes to the meeting of these objectives.

The organization must adopt an ethical code, to present it to all its partners (employees, customers, collaborators etc) and, maybe the most important aspect, to observe it entirely. The ethical code is specific to each and every organization, it must not be copied or imitated and put on paper, but first of all it has to be in agreement with the organization's characteristics, it must be related to the management functions and it must be observed by all employees of every hierarchical level in the organization.

Over the last years more and more organizations in Romania have elaborated ethical codes (behaviour codes) appealing to specialized advice. There are specialized companies that elaborate ethical codes; their elaboration is based on the information from the beneficiary organizations and their necessities. These companies offer both ethical advice services and business ethics training programs. Advice services can be offered both for punctual issues (solving internal problems such as the ones related to the relationship between management and employees or the realization of ethical codes) and for longer periods of time, as part of the companies' policies changing processes.

Generally, an ethical code needs to have an introductory message (head note, letter) addressed to target groups (shareholders, managers, employees, customers, banks, public institutions etc.) by the president/manager/owner of the company; general principles that characterize the company (for example reference can be made to honesty, fairness, impartiality, professionalism, confidentiality, transparency, health protection, environment protection, the observance of laws, human rights protection, respect, free competition, conflict of interests etc.); the guiding lines regulating the relationships with all the interested parties involved (customers, shareholders, employees, collaborators, agreement partners, public institutions and external organizations, banks, mass-media etc.); practical norms that describe the control system for the observance of the ethical code and for its permanent improvement; sanctions for the non-observance of the ethical code.

The ethical code is like a moral contract between organization and partners, contributing to the cohesion of members, to the creation of a climate based on cooperation and competition. The ethical code has to be operable and easy to use, a decision instrument for all staff categories, from all hierarchical levels.

The ethical code is a component of the organizational culture due to the fact that it renders in writing the values, norms, beliefs within the organization, make them known and promote them. It is also a marketing instrument as it does not address only to the members of the organization but also to other companies, co interested groups, govern and ministries, the public in general, non-government organizations, research institutes, public and private financers, potential consumers, business private environment, mass-media.

If in the case of public institutions, the ethical code is elaborated and approved by the law, in the case of private companies, the ethical code is different from one company to another and is approved by their management.

The existence, but especially the observance of the ethical code is important in all organizations willing to be competitive and this is because the ethical code has an important impact on behaviours and decisions that manifest within companies. First of all, by means of the ethical code the employees are guided in solving their problems. They are informed on the accepted modality in solving problems and on the sanctions applied in case they violate the provisions of the ethical code. Thus, a functioning based on moral standards of the organization is provided. By all its provisions, the ethical code clearly settles what is right and what is wrong, what is accepted, tolerated and what is not allowed within the organization.

We express our dissatisfaction that, although business ethics has become a more and more important field and necessary to apply in the Romanian business environment, there is no preoccupation for research in this respect. At the same time we are glad that some universities in the country (especially those training specialists in the economic and public administration field) have Ethics or Business Ethics as a distinct subject in their curriculum and that there are companies organizing training courses on business ethics. Even more, Synergetica Foundation, set up in 2006, as an initiative of the Synergy Public Relations and Communication Foundation, launched a Business Ethics Program that promotes and supports the adoption of ethical behavioural standards in the Romanian business environment. The project that launched the program is called "Prizes for Business Ethics" and is desired in the development of some activities such as:

- the support for the elaboration and implementation of ethical codes in the Romanian organizations;
- the training of trainers in the role of business ethics practices in taking decisions and elaborating strategies;
- periodical conferences on Business Ethics

We wish to end our paper with a quotation of Horia-Roman Patapievic: "Man is neither entirely good, nor entirely bad. I believe that his acts are either good or bad. Therefore, any moral judgment has to be a behaviour judgment and not an essence one. This is why people judge only facts, and it is the privilege of God to judge souls."

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