INFLUENCE OF BUSINESS ETHICS FOR ENTERPRISE COMPETITIVENESS

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Abstract. Business ethics becomes an important creative factor in everyday business life. Interest of the enterprises on business ethics has fallen down at the recession, but it still remain as an integrated suite of options, demonstrating how to create and achieve value for a long perspective. Though there are many researches provided and books published on business ethics but the problems are not resolved finally. There is no unambiguous definition as well as single range of segregated elements of business ethics. There are only few attempts to construct model of business ethics and its influence for enterprise competitiveness and very few attempts on modelling the business ethics by segregated elements as well as competitiveness of enterprises by indicators. Thus in the article there is the attempt to compose the model of influence of segregated elements of business ethics on competitiveness indicators. Research provided by the author in 2008-2009 in Lithuania discovered the main elements of organizational ethics that influence the main indexes of organizational performance (in article presented in form of model). Research showed that the purposive appliance of business ethics can contribute to competitive advantage of organization. The study also showed that the quite many employees are faced with ethical problems in working environment. Thus, each organization should create and follow its own ethics rules, constitutions or codes, discuss ethical issues that are legally and ethically addressed, to managers, colleagues and to the partners.

Key words: enterprise social responsibility, business ethics, elements of business ethics, model.

1. Introduction

Knowledge society is looking for socially responsible organizations. The great organization can become only if it is acting ethically in all aspects of its activity, if it recognizes people in the organization as main factor of productivity and effectiveness. And, according to Kim and Mauborgne (2005), because every employee, regardless of its position in management system hierarchy is a personality, individuals seek recognition of their value, not as “labour”, “personnel”, or “human resources” but as human beings who are treated with full respect and dignity and appreciated for their individual worth regardless of hierarchical level. Intellectually, individuals seek recognition that their ideas are sought after and given thoughtful reflection. People are looking for ethical behaviour of managers and colleagues regardless of their position, seniority, age, education, and situation. Business ethics becomes a great power in global competition, as Tuulik and Alas (2005) demonstrated in their research. Commitment confidence, voluntary cooperation is not only attitudes or behaviour, it’s rather efficient intangible assets. The sixth principle of blue ocean strategy presented by Kim, Mauborgne (2005) declares: to build peoples trust and commitment deep in the ranks and inspire their voluntary cooperation, organizations need to build execution into strategy from the very beginning. Business ethics ought to be included into general strategic models and operational management. There is not easy to build an ethical competitive strategy for organization. There must be assessed all kind of resources including psychological ones.

Business people by term of „business ethics” usually understands one of three things: (1) avoid breaking the criminal law in one’s work-related activity; (2) avoid action that may result in civil law suits against the company; and (3) avoid actions that are bad for the company image (Fieser 2009). It is because these three things involve loss of money and company reputation. That’s why businesses turn to philosophers, sociologists and psychologists to instruct employees on becoming “moral.” For over 2,000 years philosophers have systematically addressed the issue of right and wrong conduct. Philosopher Kant, sociologist Weber, psychologists Mayo and Follet has made significant contributions for ethics in business relations. But all of them and their followers have approached to the business ethics from different points of view that is explained the problem differently.

Differences in understanding of the essence and the definition of business ethics used by different authors still exist because they used to describe different sides of business ethics: business ethics in general, professional ethics, applied ethics, management ethics, engineering ethics, marketing ethics, the ethics of leadership and are stated by philosophers, economists, management researchers, educators etc. Business ethics is understood differ-
ently by different cultures religions in different countries and regions of the planet and by philosophers, economists, as well as different interest groups, business owners and employees. When Confucianism in South and East Asia relay mainly on the respect for elder, and Islam – on Koran requisitions while Christianity – on 10 prescriptions of the God. The developed and developing European countries as well as both America’s Continent relay on legislation because the main ethical requirements are included into the laws. Differences in culture and business ethics dictate the need for deep knowledge of culture and business ethics of the countries.

Many changes have been made in the world economy and business ethics in global market and social issues over the past decades: international competition has been intensified, the mass mergers have spread, abrupt market downturn, and recession have appeared. Organizations have lost the clarity on meeting the customer’s needs and expectations – they have to deal with new business problems and create new competitive strategies. Business, marketing and management ethics digresses to secondary problems. But it still remains as an integrated suite of options, demonstrating how to create and achieve value for a long perspective.

Though some problems of business ethics have been covered in scientific literature, but the research of the problem still is far from maturity stage. Just very few pilot researches have been made in Lithuania on business ethics: mainly the research materials from the scientific books and articles are used to demonstrate the problems. At the recession, seeking for immediate profit organizations have lost the interest in long-term future prosperity. But if the company tends to be successful in long run period it ought to have social responsible strategy i.e. know and use successfully the most effective elements of social responsibility, organizational culture, business ethics, etc. Research provided by author discovers the main elements of organizational ethics that influence the main elements of organizational performance, has presented as model in article. The investigation revealed that the business ethics compliance has a significant impact on company performance. Correlation between business ethics and competitive elements has showed the dependence of business ethics and competitiveness indexes and how segregated elements of business ethics influence the competitiveness of enterprises. The study also has showed that the majority of the interviewees have been faced with ethical problems in their work environment and that the proper use of business ethics can help to create competitive advantage of organization.

Research problem, novelty and relevance. The article is addressed to business ethics and corporate competitiveness provided as influence of segregated elements of business ethics to main competitiveness indexes of the enterprise. Data presented in the article are from the original study of the author on business ethics in Lithuania accomplished in 2008-2009. Financial data for analysis of the enterprises’ was selected from the mass media and statistical sources.

The objective of research – to discover the influence of the main elements of business ethics to main indexes of organizational competitiveness

Main tasks of research – to provide logical comparative analysis of scientific literature, select important elements of business ethics and to construct the model of influence of business ethics on enterprise competitiveness.

Methodology of research – logic comparative analysis of scientific literature on business ethics, content analysis of publications in two Lithuanian business magazines, analysis of researches of business ethics at Lithuanian organizations, and the survey of experts at the enterprises by questionnaire. The survey of 165 respondents covered experts of different experience, qualifications, sex and duties of Lithuanian organizations. One hundred of them were correspondent students of Vilnius Gediminas Technical University.

2. Business ethics as a competitive force

The headwaters of business ethics as a factor of efficiency and research subject relates to the corporate social responsibility. Discussion on it began to widespread in 80-ties of the last century after Moskowich has published the article in the first issue of Business and Society Review magazine (Vance 1975) that the socially aware corporation possesses the special sensitivity that will enable it to surpass competition. In second issue (fall 1972) after testing his hypothesis on research of 14 companies with remarkable positive results and good social responsibility credentials Moskowich correlated corporate worth of those 14 corporations (as measured by stock market prices) with corporate responsibility. According to investigation stocks of the companies were up 7.28 % in first six months („So far, so good“ – concluded Business and Society Review). Of course there has been an opposite minds too. Stanley Vance (Stanislovas Ven-slavičius – Lithuanian, by the way, 1975), president of American Management Academy in 1974 – accentuated that research two years later of 50 major USA corporations, provided by the graduate students, discovered that with each increase by 1.00 point in the students rating of company social re-
INFLUENCE OF BUSINESS ETHICS FOR ENTERPRISE COMPETITIVENESS

... sponsibility, the company stock market value can be expected to decline by 18%.

According to Koch (1998) 80/20 principle the great majority and firms 80% of its profit gets from 20% of their clients. That’s if enterprise want to out-execute its competitors it must communicate clear strategies and values, reinforce all values in everything the company does, and allow people to act freely and with trust and the will to execute consistent with the values (Gerstner 2002).


Though there are many researches executed and books and articles published the problems of business ethics are not finally discovered. There is no unambiguous definition as well as single range of segregated elements of business ethics and there are only few attempts to construct model of business ethics and its influence for enterprise competitiveness. The differences in definition of some authors are provided in Table 1.

Thus business ethics is a framework of requirements of society for morality norms in stakeholders and employees behaviour, management democracy at all management layers, communication fashion and social responsibility.

Management theory states that success in global markets is guaranteed by good product quality, low price, fast and professional service, and maintained by business ethics, effective ethical marketing, and experts dealing ethically in different geographical areas and countries.

Business ethics is a complex subject and its history is filled with distinct theories that are constantly opposed by competition theories. So that’s why the controversies in applying ethics to the specific practices of business are found. According to Hartley (2004) in theory there are three different ways of deriving standards of business ethics: 1) attitude to business ethics with regard to the profit motive; 2) business ethics constrained to following the legislation; 3) business ethics derived from general moral liabilities. All of three ways are controversial too and consist of strong and weak versions. Some theorists (Gerstner 2002; Trevino, Nelson 2006), and business people argue that there is symbolic relation between ethics and business: ethics arises from profit-oriented business. Weakness of that theory can be the opinion that good ethics results in good business. According to that opinion to be profitable means to make safe products, to respect employee privacy and to conduct good psychological climate. In the middle of the last decade of 20-th century the discussion if business ethics ought to be on the range together with conditions and measures of success has flamed. And if it was not the case – it becomes a trifling eclectic essay or empty preachy teaching. And in opposite, as Nash (1993) stated, managers have seen the high cost that corporate scandals exacted: heavy fines, disruption of moral routine, low employee moral, increased turnover, internal fraud, and loss of confidence in the firm.

<table>
<thead>
<tr>
<th>Author</th>
<th>Ethics profiles</th>
</tr>
</thead>
<tbody>
<tr>
<td>R. De George (1999)</td>
<td>A systematic attempt to give meaning to our individual and social experience in determining the rules which should be managed by human behaviour.</td>
</tr>
<tr>
<td>A. Milts (2001)</td>
<td>A special general understanding of human life, solidarity, meaning, philosophy of action, connecting people as an independent, free desires and self-respect creatures.</td>
</tr>
<tr>
<td>D. Vyšniauskiienė, V. Kundrotas (2002)</td>
<td>Branch of philosophy that deals with moral values and appreciation of human behaviour.</td>
</tr>
<tr>
<td>V. Misėvičius (2005)</td>
<td>The fields of science, the testing of moral norms and principles and problems between humans and the environment or the relationship between the various parties. It analyzes the moral issues through the prism of good and evil.</td>
</tr>
<tr>
<td>V. Pruskus (2003)</td>
<td>The morality, norms of people, their public duties in the system. Business conduct, moral principles, norms, values and business ethics is the object.</td>
</tr>
</tbody>
</table>
Fifteen years ago the „stakeholders theory“ has flourished as an alternative way to understand the firm in sharp contrast to traditional models. Theory states that „stakeholders“ plays a crucial role in enterprise activity and depicted managers in more simplistic terms (as dealing with employees, suppliers and customers only). According to the theory the firm exists to make profits and serve the interests of one group, stakeholders only (Jones et al. 2002).

According to Gardner et al. (2007), there is no simple formula to identify work that is of excellent quality, socially responsible and meaningful to the practitioners. More than 1200 Americans interviewed in nine industry domains reviled that business ethics and corporate responsibility to be a pretty complicated challenge.

As opposite of that, survey of large US corporations provided recently by ITHAKA (association of 1000 journals archives) (Weaver et al. 1999), showed that 78 % of them had Codes of Ethics, 51 % had telephone lines reporting ethical concerns, and 30 % had special offices created in different regions, two thirds of which were created in 1990s. American businesses are investing a lot in Ethic programmes, but it is not as match, as businesses need. According to Gilbert (1996), professor from Oxford University, business world is full of people behaving unethically. They must be uncovered, and called to account for their shady deeds, we must get thought with ethical violators and they must be stopped. What we need are more codes of conduct, more extensive investigative procedures, stiffer civil and criminal penalties, tougher judges and more timely congressional action. It’s all fits to Lithuania as well.

3. Research technique and results

It is accepted that business ethics covers four main aspects: values, standards and norms, internal environment, and external environment. Researches of business ethics at Lithuanian organizations shows that business ethics become one of important factors in creating environment friendly for business. Researches provided by author (with assistance Bražiūnaitė and Luebcke) in 2004 and 2008-2009 shows that there are more problems with business ethics in public sector rather than in private one. Research method used in authors research was formalized content analysis of 159 articles and reports on business ethics published by magazines “Verslo žinios“ („Business news“) and „Vadovo pasaulis“ („The Manager’s World“) in 2004. Main problems discovered were corruption and environment protection (Fig. 1).

As we can see the main problems discussed in magazines were corruption, environment protection, fraud, damping and lie. Research also discovered that often problems emerge only for protection narrow private interests, but not for global business environment improvement and business ethics actualization problems. Research discovered that most non ethical cases were at public, not private sector. It is paradoxical as most researches on business ethics were subject to public sector.

![Fig. 1. Main Business ethics problems discussed in magazines „Verslo žinios“ and „Vadovo pasaulis“](image-url)
Codes of ethics, rules instructions mostly also are prepared in public sector. Everybody can argue – as stresses Nash – that most of all values – honesty, fairness, respect of others, service, promise-keeping, prudence, and trustworthiness are an important part of most managers education. However it is an unfortunate fact that these common-sense values, have frequently suffered meltdown in the marketplace. One of biggest problems discovered by our research is lack of preventive measures and articles published on subject of best practice against unethical behaviour. Publications were mostly based on investigation of journalists. Though during the last five year period a research in Lithuanian private sector on business ethics has flourished, this attempt was hidden by recession. The study on business ethics that affect the organization competitiveness in Lithuania two researches accomplished by the author in 2008-2009 (interviewed 165 respondents) has discovered the main elements of organizational ethics influencing the main elements of organizational performance. To do that segregated indexes of competitiveness and segregated elements of business ethics has been set to estimate correlations between the segregated elements mentioned above. For the first research data on activity of enterprises 2005-2008 has been collected from reports of enterprises published in magazine “Verslo žinios”. For the second – data has been collected from experts of the enterprises by questionnaire. Correlation between segregated elements of business ethics and elements of competitiveness has been conducted. In order to assess correlation between those segregated elements two indicators are used: the association and contingences. Association index was counted by using equation 1.

\[
K_{\text{association}} = \frac{ad - bc}{ad + bc};
\]  

(1)

In cases when some indicator in the Table 2 is absent, the association rate index has been used as 1, than preference was given to contingence coefficient. Contingence coefficient is calculated by equation 2:

\[
K_{\text{contingence}} = \frac{ad - bc}{\sqrt{(a+b)(b+d)(a+c)(c+d)}}
\]  

(2)

For further research 10 most important elements of business ethics, from 15 has been selected. Thus dependence between business ethics elements and competitiveness indexes according to contingence indexes for investigated Lithuanian enterprises calculated as shown in the Table 2.

Table 2. Correlation between segregated elements of competitiveness and elements of business ethics

<table>
<thead>
<tr>
<th>Elements of Business Ethics</th>
<th>Companys image</th>
<th>Companys Earnings</th>
<th>Sales</th>
<th>Activity Profitability</th>
<th>Market growth</th>
<th>Innovation implementation rates</th>
</tr>
</thead>
<tbody>
<tr>
<td>Commitments Compliance</td>
<td>0.50</td>
<td>-0.19</td>
<td>0.66</td>
<td>0.04</td>
<td>0.00</td>
<td>0.58</td>
</tr>
<tr>
<td>Information Security Assurance</td>
<td>0.49</td>
<td>-0.09</td>
<td>0.20</td>
<td>0.06</td>
<td>-0.11</td>
<td>-0.45</td>
</tr>
<tr>
<td>Quick response to customer needs</td>
<td>0.29</td>
<td>-0.39</td>
<td>-0.31</td>
<td>-0.44</td>
<td>0.24</td>
<td>-0.14</td>
</tr>
<tr>
<td>Honest competition</td>
<td>-0.39</td>
<td>-0.07</td>
<td>-0.63</td>
<td>-0.21</td>
<td>-0.57</td>
<td>-0.14</td>
</tr>
<tr>
<td>Compliance of Law enforcement</td>
<td>-0.41</td>
<td>0.26</td>
<td>-0.19</td>
<td>0.39</td>
<td>-0.26</td>
<td>-0.55</td>
</tr>
<tr>
<td>Eco-compliance</td>
<td>-0.13</td>
<td>0.12</td>
<td>-0.56</td>
<td>-0.64</td>
<td>-0.13</td>
<td>0.31</td>
</tr>
<tr>
<td>Infringement of Employees Rights</td>
<td>0.15</td>
<td>0.15</td>
<td>-0.17</td>
<td>0.14</td>
<td>-0.08</td>
<td>-0.14</td>
</tr>
<tr>
<td>Secure products</td>
<td>0.01</td>
<td>-0.39</td>
<td>0.14</td>
<td>0.30</td>
<td>-0.23</td>
<td>-0.32</td>
</tr>
<tr>
<td>Leadership style</td>
<td>0.54</td>
<td>0.35</td>
<td>0.21</td>
<td>0.07</td>
<td>0.31</td>
<td>-0.06</td>
</tr>
<tr>
<td>Communication ethics</td>
<td>0.23</td>
<td>0.43</td>
<td>-0.37</td>
<td>-0.08</td>
<td>0.17</td>
<td>-0.04</td>
</tr>
</tbody>
</table>
As we see from the Table 2 the strongest impact on competitiveness of the enterprise was the following ones: commitments compliance to the company’s image (correlation coefficient 0.50) and leadership style to the company’s image (0.54) and earnings (0.34); commitments compliance to sales results (0.66) and commitments compliance to innovations implementation rates (0.58). Some elements have positive influence on four and five competitiveness indexes (leadership style, commitment compliance, compliance of tax), while others have positive index only on two of them (quick response to customer needs, eco-compliance, compliance of law enforcement). The worst situation is with the honest competition – all competitiveness correlation indexes are negative. Honesty in competition is costly and still unusual in Lithuania.

Investigation showed that business ethics is not direct but only auxiliary factor for the profit increase. Though enterprise is profitable in general ethical behaviour of the enterprise can be unprofitable. Research confirmed the principle mentioned by Vance (1975).

Some elements of business ethics, e.g. quick response to customer needs, communication ethics and guarantee about the reliable sales information are unprofitable for investigated enterprises. Most profitable elements of business ethics were the commitment compliance and the secure products. Meanwhile results show that the ethical behaviour of enterprise more positively affects sales than profit.

4. Model of influence of most important business ethics elements on enterprise competitiveness

It is very complicated to make a decision which of the mentioned elements of business ethics will lead to more profit. Even if the leaders agreed on the need to behave ethically such behaviour, as it is shown by the survey, may be too expensive. And that is the strongest disincentive for business ethics implementation – especially now at recession. In order to conduct business ethics elements to increase competitiveness of enterprises, and maximize efficiency of key elements of business ethics the model was constructed (Fig. 2). To strengthen competitiveness of enterprises it is proposed to use those elements of business ethics, which has the greatest positive correlation with competitiveness indexes.

To reach the strategic goals, enterprises must select the most effective elements or their combination. In our case the combinations would be as shown in the model constructed (Fig. 2). If the strategic goal of the enterprise is to increase earnings (as it is very important at recession) it ought to select combination of elements and to pay most attention as to: guarantee about reliable information, communication ethics, and leadership style, compliance of tax and compliance of law enforcement. But at the booming stage it would be better to select the combination that affects market growth i.e. combination from elements: quick response to customer needs, leadership style, communication ethics, promotion of innovation and compliance of tax (Fig. 2).

![Fig. 2. Model of influence of most important elements of business ethics to competitiveness of an enterprise](image-url)
Selection of most important elements depend on many considerations: business environment, external and internal factors, strategic and operational goals, market forces, management style, employees skills, situation in market, etc. Thus investigation of factors and selection of combination of elements ought to be checked periodically.

Calculations show that the right choice of business ethics components not only increases the profit of enterprise, sales results, but also influence on profitability, market share, innovation and pace of the image.

5. Conclusions

Research has discovered the structure of business ethics as an important factor for strengthening competitiveness of the enterprises. To get this result the business ethics has been segregated into simple elements and the influence of the segregated elements to segregated indexes of competitiveness has been discovered by usage of the correlation between the elements and indexes.

Research shows that strongest influence to the competitiveness of the enterprises are made by the following factors: commitments compliance to the company’s image (correlation coefficient 0.50) and leadership style to the company’s image (0.54); guarantee about the reliable service information to company’s earnings (0.58) and compliance of tax to enterprises earnings (0.63); commitments compliance to sales results (0.66) and commitments compliance to innovations implementation rates (0.58). Some elements have positive influence on four or five competitiveness indexes (leadership style, commitment compliance, compliance of tax), while others have positive index only on two of them (quick response to customer needs, eco- compliance, compliance of Law enforcement). The worst situation is with honest competition – all competitiveness correlation indexes are negative. Honesty in competition is still unusual in Lithuania.

Research showed that there are problems in implementation of business ethics at Lithuanian enterprises. The correlations between elements and competitiveness indexes shows that often there is an opposite influence of the results of enterprise activity on segregated elements of business ethics (Table 2).

According to the research it is proposed to focus on the quick response to customer’s needs, proper choice of leadership style, communication ethics, and promotion of innovation as these elements of business ethics have the greatest impact on the performance.

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