UNETHICAL PRACTICES IN MODERN-DAY EUROPEAN BUSINESS

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Abstract*:In the current economic environment, businesses will need a strong corporate culture to fight the risk of fraud, bribery and corruption — a culture which, by necessity, must start at the top of an organization. Significantminority in management are still prepared to do whatever it takes to help their business survive and grow. When building a strong anti-fraud and anti-bribery environment,companies must implement appropriate policies and proceduresand communicate them effectively.Even when companies have managed to produce a code ofconduct and an anti-bribery policy, a declining proportion areensuring that their staff are trained on them.*

Key words*: business ethics, management, bribery, corruption, Europe.*

1. INTRODUCTION

Ethical dilemmas and uncertainties faced by managers in their career encounter form the core of every managerial job. Deviations from ethical norms are more prominent, and the moral dilemmas are more often. Typical areas where there is the most common deviations from ethical norms are: corruption, industrial espionage and theft, conflict of interest, misue of media, collusion, fraud and other phenomena related to the development of modern society such as discrimination and cultural diversity.[1]
Corruption is a major issue throughout the world. The political and legal theory under corruption mainly involves the misuse of entrusted powers for personal gain, with conflict of interest and nepotism as well as side effects. According to numerous occurrences of this phenomenon in the world, there are activities that are most vulnerable to corruption, namely: public procurement, government appointments in the area, donations for political campaigns, and the like.
Implementation of business ethics should not be a concern only for the managers who set the ultimate strategy of the organization, but should prevail at all levels of business and the organization itself.[2]Ethics must permeate each and every thing in the organization. It has to be applied everywhere and always. We can not just be a little ethical or ethical only when it suits

[1] Di Džordž Ričard, *Poslovnaetika* (Beograd: FilipVišnjić,2003).
[2] Thompson jr.et.al., *Readings in Strategic Management* (Boston: BPI Irwin,1990), 499.

to us. Ethics is absolute. At the time of attraction and abundance of Ethics, it is also very competitive weapon. Ethics can be used to attract new employees and customers. [3]
Professional management through personal example (attitudes and practices) is an indicator of employees behavior.[4]Codes of ethics or standards have been formulated in most organizations, but these are not respected, because of sanctions are minor. If those responsible for setting an ethical tone in the organization cut corners, it is difficult to imagine how they will be able to positively influence the behavior of others. Businesses need a tone from the top approach to creating an ethical corporate culture. In the current economic environment, businesses will need a strong corporate culture to fight the risk of fraud, bribery and corruption — a culture which, by necessity, must start at the top of an organization. A significant minority in management are still prepared to do whatever it takes to help their business survive and grow.

2. UNETHICAL PRACTICE CONTINUES

The 11th Global Fraud Survey conducted biennially (*Ernst & Young Global Fraud Survey: Driving Ethical Growth - New Markets, New Challenges 2010.*)[5], involved over 1,400 interviews with Chief Financial Officers (CFOs) and heads of internal audit, legal and compliance functions across 36 countries. The survey found that, globally, cases of significant fraud had increased from 13% in 2008 to 16% in 2010. In Western Europe, this figure more than doubled, rising from 10% to 21%.
Responses to fraud were found to be *ad hoc* and undeveloped, despite the rise in incidents., over half of respondents outside North America do not have a response framework for fraud allegations and over a quarter had not updated their fraud risk assessment since 2009. Management of fraud was also undeveloped., two in five respondents rarely conduct due diligence for fraud or corruption. Board's are not being proactive when it comes to managing the risk of fraud., only 4 in 10 CFOs have been asked to review anti-fraud and corruption controls by the Board and 28% have been asked to produce a fraud risk assessment in the last 12 months. When asked whether the Board needs a more detailed understanding of the business if it is to be an effective safeguard against fraud, bribery and corrupt practices, half ofrespondents agreed globally, with this figure rising to almost 75% in the Far East region. Similarly, knowledge of anti-bribery policies amongst company lawyers was poor, with almost a quarter unaware of their company's policy on facilitation payments.
The*2011 European Fraud Survey*[6]reflects the views of more than 2,300 respondents — from thefactory floor to the C-suite — in 25 countries. This survey was conducted in 2011 on behalf of Ernst & Young's Fraud Investigation & Dispute Services practice. It contrasts the viewsfound in the mature markets of Europe with those found in thedeveloping markets on matters including employee perceptionsof fraud, bribery and corruption, their

3 K.A. Nordstrom, J. Ridderstrale, *Funky Business, Talent makes capital dance* (Stockholm: Book house Publishing, 1999), 281-282.
4 Radosavljević Dragana, „Corporate managemnt and social responsibility in Serbia", *International journal of economics and law*, vol. 1, no. 1 (2011): 109.
5 "Ernst & Young Global Fraud Survey: Driving Ethical Growth - New Markets, New Challenges 2010",accessed February 20, 2012, http://tinyurl.com/69wvhej.
6 „2011 European Fraud Survey", accessed March 23, 2012, www.ey.com/Publication/vwLUAssets/European_fraud_survey_2011/$FILE/EY%20EUROPEAN%20FRAUD%20SURVEY%20 2011%20FINAL%20PDF%20050611.pdf.

companies' responsesto the challenges posed by these risks, and the response ofregulators and law enforcement.

Participant profile — region and country, company size, role, industry:

Number of interviews (Region and country): Mature markets (1,335), Austria (103), France (101), Germany (105), Greece (102), Ireland (105), Italy (104), Netherlands (100), Norway (100), Portugal (102), Spain (103), Sweden (103), Switzerland (103) and UK (104).

Number of employees globally: above 5,000 (48%), 1,500 – 4,999 (22%), 1,000 – 1,499 (12%), 500 – 999 (11%), less than 500 (7%).

Role within organization: Board director (1%), Senior management (6%), Other management (23%), Other employee (67%), Other (3%).

Industry sector: Banking and capital markets (13%), Consumer products (13%), Manufacturing (13%), Health sciences (12%), Government and public sector (11%), Telecommunications, communications and entertainment (11%), Transportation (11%), Real estate and construction (5%), Extractive industries - oil, gas, mining, minerals (4%), Power and utilities (4%), Professional firms and services (3%).

Number of interviews (region and country): Emerging markets (1,030), Baltics (101), Croatia (100), Czech Republic (101), Hungary (103), Poland (108), Romania (104), Russia (108), Slovakia (100), Turkey (105), Ukraine (100).

To help their company survive or grow, more than a third of all respondents are prepared to offer cash payments, gifts or entertainment to win business. Respondents make little distinction between the actions that can be justified to save a business from collapse and those that can be justified to deliver growth.

While we might expect some people to be prepared to go to any lengths to save their business from failure, this same view of "acceptable" behavior persists even when business survival is not at stake. Most significantly, board-level and management employees are just as likely as other staff to view these actions as justifiable.

About a fifth of managers still say that they are justified in offering cash payments, gifts or entertainment if it will help to win business. Some are even prepared to misstate the company's financial performance. This is truly disturbing coming from management. Only half of the asked managers would reject taking any of these actions to help the business survive or grow.

Given these results, it is not surprising that employees' perceptions of the ethical standards of management are also negative. Of that respondents, 59% expect company managers to cut corners to meet targets when times are tough. Even management agrees, with half of our board-level and management interviewees saying that they would cut corners to meet targets.

Table 1: Management perceived to be likely to cut corners

	Strongly agree %	Tend to agree %	Neither %	Tend to disagree %	Strongly disagree %	Don`t know %
Board level / senior management	19	31	22	15	10	3
Other management	19	37	18	15	8	3
Other non-management employees	24	38	17	10	5	6

Question: To what extent do you agree or disagree that company management is likely to cut corners to meet targets when economic times are tough?
Base: All board level/senior management (172)., Other management (537)., All other non-management employees (1656).

What is more disturbing is that a quarter of respondents do not trust the management of their own company to behave ethically.If those responsible for setting an ethical tone in the organization cut corners, it is difficult to imagine how they will be able to positively influence the behavior of others.
One potential explanation for the shortcomings in management behavior may be that a third of respondents have seen employees with questionable ethical standards being promoted within their company.Given that corporate conduct is driven by individual actions, it is important to consider how to better promote and reward ethical behavior. One suggested approach is to link behavior to individual performance reviews.

3 BRIBERY AND CORRUPTION CONSIDERED COMMONPLACE

With such a high proportion of respondents prepared to do whatever it takes to succeed, one might expect an environment conducive to fraud, bribery and corruption. Respondents agree, with almost two-thirds telling us that bribery and corruption are widespread in the country where they are based.
Responses varied significantly by location. More than 80% of people in emerging markets saying that bribery and corruption are widespread, compared with half of those in mature markets. 40% say that the situation has become worse during the economic downturn. The scale of the task facing businesses and regulators is striking. More than a quarter of respondents (28%) told us that it is common practice in their sector to use bribes to win contracts. Only half of those we interviewed say that bribery and corruption is not widespread in their sector.
Even though these numbers are alarming, there is a notable difference between the 62% of people who think that bribery is common in their country and the 28% saying that it is common in their sector. This suggests a corruption perception gap, with individuals perhaps too optimistic about their own risk exposure.
One explanation for this difference may be the media focus on grand corruption — the corrupt conduct of politicians and other senior public sector officials — in contrast to the relative lack of attention focused on various business sectors.

4. PERCEPTION GAP BETWEEN MATURE AND EMERGING MARKETS

Bribery/corrupt practices happen widely in businesses in this country	% agree
Mature markets	46
Emerging markets	81
There has been an increase in corrupt practices due to the economic downturn	% agree
Mature markets	33
Emerging markets	49
In our sector, it is common practice to use bribery to win contracts	% agree
Mature markets	20
Emerging markets	38

5. COMPANIES BLIND TO THE RISKS OF EXPANSION

When contemplating expansion into markets perceived to be at high risk of bribery and corruption, companies should conduct a thorough corruption risk assessment. However, only one-third of respondents recognize that investing in new markets can open their company to new risks.

Developing the right corporate culture helps companies be more profitable and provides sustainable competitive advantage. As much as half of the difference in operating profit between organizations can be attributed to effective cultures.[7]The ethical tone of the organization must be set by seniormanagement and established through frequent employeecommunication and training. A company's intolerance ofimpropriety should be widely communicated throughoutthe organization in a clear and unambiguous way.Training is a key partof an effective anti-bribery system, and the absence of training isregarded by regulators as unacceptable.

Companies should consider, as a minimum:

1. To what extent will expanding the business involve close relationships with government officials[8]: for example, in connection with public sector contracts, government approvals, permits or authorizations?
2. The remuneration and hospitality policies common in the target market. For example, are fees proportionate to the related services delivered? What level of expenditure on travel, gifts and entertainment is considered appropriate, and how does this compare with international business standards?
3. Whether third parties or agents will be necessary to conduct or obtain business. When dealing with agents or consultants, consider:
1. Their ethical reputation and corporate governance structures.
2. The strength of their internal controls.[9]
3. Contract provisions, including audit rights, to minimize the risk of bribes being paid on your organization's behalf and without your organization's knowledge.
4. The business need for the organization's services, and detailed information on the services to be provided.

It is necessary to build a solid business foundation for turning to the ethics whenever possible. The grounds will usually be based on long – established ideas of the above directions in the field of human relations.[10]

6. CONCLUSION

Companies are not doing enough to implement and communicate anti-fraud and anticorruption measures.Lack of business ethics is first and foremost reason that will, in a "convenient" time, in an enterprise, company or any business entity, get to the scan-

[7] JamesHeskett,*The Culture Cycle: How to Shape the Unseen Force that Transforms Performance* (USA, New Jesey: FT Press, 2011).

[8] VojislavVučenović, AcaMarković,*Izvorišta holističke teorije organizacije* (Beograd: FORKUP, 2011), 121-122.

[9] VojislavVučenović, MilanRadosavljević, *Holistička tehnologija uspešnosti – Kako postati uspešan* (Beograd: FORKUP, 2011), 82.

[10] AcaMarković, LjiljanaMarković, „New trends in human resources management",*International journal of economics and law*, vol. 1, no. 1, (April,2011), 75.

dal and disorder of the business environment. An individual who lacks basic principles of personal business ethics, and has a total deficit of moral standards, is always ready to commit fraud, to put their personal interests above the collective, legal, above the customary norms of business ethics and human relations, disturb the business climate and atmosphere, to stagger other. Ethics is an individual building element of collective ethics, corporate ethics. A man without ethics is a personal business malignant point in the operations of each company, a point that always lurks to expand the whole system and procedures of the company.Lack of business ethics distort the usual flow of business, both in the community where the company is situated, and in the wider environment, and sometimes acts to the global economic and business trends.

The findings remain as relevant and business-critical today as they have ever been. They indicate that there remains a widespread tolerance of unethical behavior that goes to the very top of a business. They show that, across Europe, bribery and corruption are considered to be rife, while few individuals are willing to recognize that it could happen in their own industry sectors. Despite this, respondents indicate that there has been a decline across the board in the use of anti-fraud and anti-bribery measures precisely during a period when the incentives to act unethically have been the highest.

There remains, therefore, a real need for companies and those charged with their governance and oversight, to revisit their focus on the risks of fraud, bribery and corruption. Cross-border cooperation among enforcement agencies, raises the stakes even further. More robust anti-fraudand anti-corruption efforts are an imperative.

The picture of corporate ethics today, however, is not entirely negative. There are economic benefits for those companies with high ethical standards and not just serious commercial and legal risks for those without. There is an expectation that economic growth would not suffer as a result of the introduction of tougher anti-bribery legislation.

To promote ethical practices in business, the leadership of the organization must:

- Make ethical behavior a priority for the business anddemonstrate its commitment to achieving this objective.
- Conduct a fraud, bribery and corruption risk assessmentand identify any gaps in current policies and procedures.
- Where necessary, modify and develop policies and procedures.
- Implement changes paying particular attention to training:
- Be sure that training is truly tailored and relevant, reflectingthe issues and day-to-day problems that their employeesare likely to encounter and how to address them.
- Take a risk-focused approach to who should be trained,on what, in which manner and how often.
- Ensure that integrity is reflected in the appraisal systemsof the business.

These are largely commonsense measures that give employeesa reason to care more about integrity by linking it to theirwork and their career advancement within the organization.

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