

ETHICS IN MODERN ECONOMY

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Abstract: *Ethics is defined in various ways. Its significance is emphasized in the conditions of severe competitive challenges. Modern managers have a difficult task to realize their activities in the ethically accepted framework, but not to become less competitive. There are different approaches to business ethics depending on the interpreter of the business ethics. Companies, which are leaders in their areas, have realized the significance of ethically responsible business. This paper presents ethics as a significant phenomenon of modern economy. We emphasize the need for education of managers in respect of ethical norms and social responsibility.*

Keywords: *ethics, economy, social responsibility*

1. INTRODUCTION

Modern economy implies the readiness of organizations to respond to challenges and demands of local, regional and global market, at any moment. Competitiveness is the condition that is imposed by the market economy. In such circumstances, organizations face huge pressure from many sides: suppliers, consumers, government, media, banking sector, insurance sector etc. These circumstances can be and often are the trigger of ethically problematic decisions and actions. Modern managers have a difficult task, to realize their activities in the scope of ethically acceptable, but not to become less competitive.

Organizations are, in economically logical sense, oriented towards generating profit and decreasing the expenses of business. Managers have to be flexible and ready to use any situation in which the organization is, in a way that is acceptable according to the interests and goals of that organization. After facing the current situation, they define next steps in order for the situation, which is obviously unfavorable, to be used in a positive sense and be turned into their favor. In such circumstances and under pressure of realizing the competitive advantage, managers usually make decisions which are not completely according to the ethical standards. While planning and defining the strategy and operational plans, managers need to put these plans through ethical code of modern business.

2. THEORETICAL FRAMEWORK

Ethics represents the significant factor of modern business environment. By developing the human rights, as well as workers' rights, the need for education of managers in respect of significance of ethics in modern economy arises. Socially responsible companies set aside significant material means for education and implementation of ethics in practice. The monopolist phenomenon in modern economy significantly influences the appearance of ethical dilemmas in organizations whose survival, at the competitive market, depends on productivity and minimizing the expenses of business activities. It is often the case that the organizations, with the goal of decreasing the business expenses, opt for unpopular measures, whose effects have an unethical connotation.

Ethics is defined and classified in various ways. We usually divide ethics into individual and organizational.

Individual – Certain leaders consider that company should not bear the consequences of the mistakes of individuals. According to their opinion ethics has nothing to do with leadership.

Organizational – Ethics has to be present in leadership. Ethical orientation of a leader represents the key factor in the process of promoting the ethically correct way of behavior among the employees¹.

Ethical dilemmas usually come up in the strategic foundation. Typical situations for such cases are the ones in which the interests of an organization and the attitude of an individual are not in accordance based on the ethical principles².

In order for an organization to be successful and acknowledged at regional and global level, there has to be certain elements in domain of ethics present:

Role models – Leaders represent the role models in their organizations. They have to be consistent in their actions and justify the given promises.

Corporate credo and codes of conduct – provide the guidelines for norms and beliefs, as well as guidelines during decision-making. Enable the employees to reject the ethically incorrect actions.

Reward and evaluation system - Inappropriate rewarding may provoke employees to behave unethically, which would not be the case in conditions of better defined reward system. The example of inadequate reward system and its influence on unethical behavior of employees can be seen in Sears, Roebuck & Co. company. In 1992 Sears received huge amount of complaints for car servicing, because of selling the unnecessary parts and services as a part of servicing. The cause of unethical conduct of employees was present because of management's decision to introduce the stimulations and quotas for mechanics, in order to increase income and market share. Mechanics, with the goal of fulfilling the quotas, offered the unnecessary services and parts as a part of standard service, which resulted in unsatisfied clients and many complaints. Overall expense of litigations was 60 million dollars and the enormous damage of reputation of the company.

Policy and procedures – It is essential to develop policies and procedures which will define a certain conduct system, in order for all employees to be encouraged to act ethically³.

¹ Dess Gregory et al. *Strategic management*, Belgrade: Data status, 2007, 417

² Marković Aca, Ljiljana Marković „New trends in human resources management“, *International journal of economics & law*, Vol.1 No.1(2011): 75

³ Dess Gregory et al. *Strategic management*, Belgrade: Data status, 2007, 423-426

There are different approaches to business ethics depending on the interpreter of business ethics. We can divide ethics on:

Normative approach – refers to the clear definition of rules of correct conduct

Descriptive approach – analyzing the moral principles and how much they are obvious in the practice⁴.

In modern economy we can see unethical behavior of certain managers that apply the business policy of an organization they are a part of. Depending on the circumstances in which they do business, the causes of unethical behavior can be very different:

Overly ambitious or obsessive want for personal gain, wealth or some other selfish interests.

Pressure on the managers in respect of attaining high goals, and even attaining more.

Organizational culture that forces profitability and business results and not the ethical behavior⁵.

Ethical dilemmas are present in all areas of economic activities. Everybody is faced with ethical problems, starting with managers, operational managers in the production process, engineers and employees. Besides these subjects within the organizations and ethical dilemmas of internal character, the subjects from the environment also face the ethical challenges: associates, service agencies, buyers, suppliers, agents, media etc. Every subject has a significant influence on people that he directly cooperates with, and on the other participants in business activities indirectly. Besides influencing one another, the activities of the mentioned subjects can have an influence on the environment as well and social community in which they conduct their business activities and are a part of.

Companies which are world leaders in their areas have realized the significance of ethically responsible business. They see the corporate success through three equally important segments: profit, loss and social impact/influence on the environment. The next table shows the companies with the highest grades in respect of socially responsible business activities.

Table 1: companies with the highest grades in respect of social responsibility

	Name of the company
1.	Johnson & Johnson
2.	Coca-cola
3.	Wal-Mart
4.	Anheuser-Busch
5.	Hewlett/Packard
6.	Walt Disney
7.	Microsoft
8.	IBM
9.	McDonald's
10.	3M
11.	UPS
12.	FedEx
13.	Target
14.	The Home Depot
15.	General Electric ¹

⁴ Beech John, Chadwick Simon. *Sports management*, Zagreb: Mate, 2010, 30

⁵ Thompson A. Arthur et all. *Strategic management*, Zagreb: Mate, 2008, 285

Considering the profit they make and means that they have at their disposal, these companies have advantage when speaking of the possibility of setting aside enough means for socially responsible business activities. Organizations that do not realize significant profit, direct their energy towards solvent business activities and development, and in economically inferior countries even towards survival at the market.

Organizations from the countries in transition have additional burdening circumstances and obstacles in respect of implementation of ethical norms of business. One of the limiting factors is lack of education of employees in respect of ethics and social responsibility. The awareness of Serbian population of socially responsible business because of the environment and the organization is very low. It significantly slows the procedure of introducing and encouraging social responsibility⁶.

3. CONCLUSION

Business ethics represents a very tangible category of the modern economy. Its significance comes into light in the conditions of severe competition. To what extent the organizations will accept the ethical norms, depends primarily on the education of top managers who create the business policy of an organization. Managers of organizations that represent the world leaders, put ethical codes into strategy itself. By their relation with employees, associates, clients, buyers, environment and the society in general, they establish the desirable forms of behavior for the smaller organizations that are searching for their place in the market. Organizations that do business in transitional environment, under economic and existential problems and with scarce resources, face even greater challenge of change of ethical codes in doing business. The state has an important role in respect of the laws that it makes that refer to business activities of organizations labor law etc. There are significant differences in law regulations, which are often used by the big and successful companies to reduce the expenses of production. They mask the unethical principles in respect of law minimum with insisting on socially responsible behavior at other markets and in other regions.

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⁶ Radosavljević Dragana, „Corporate management and social responsibility in Serbia“, *International journal of economics & law*. Vol. 1 No. 1 (2011): 107

