

CURRENT ISSUE

ARCHIVES (2004-)

ARCHIVES (1996-  
2004)

MANUSCRIPT  
SUBMISSION

## Is Business Ethics a Neuralgic Point of Czech Companies?

By: Anna Putnová [[biography](#)]

This paper was presented on 19th February 2002 in the Czech Parliament

### Content:

Results of a three-year research at the BUT Faculty of Business and Management Tools for improvement of business ethics

- ethical code
- ethical audit
- education
- Content analysis in the economic press

The BUT Faculty of Business and Management has been systematically engaged in research of business ethics issues since 1995.

Starting in 1998, empirical research in large Czech companies was going on for three years.

The reasons for this choice are obvious - we wanted to find out about the opinions of the managers of those Czech firms that could use their tradition and experience in our economic environment to add value to their products. Moreover, large entities have double responsibility, which is given by their economic strength and by the fact that they are examples to smaller companies or traders.

We have defined a large company to be one with more than 300

employees and a Czech management.

	1998	1999	2000
a) bad payment discipline	1	3	3
b) lack of capital	2	4	4
c) mal-functioning justice	4	2	2
d) non-observance of agreements	3	1	1
e) other	5	5	5

1- highest satisfaction grade----5 lowest satisfaction grade

We asked the managers what type of problems they considered as major.

Dissatisfaction with the non-observance of agreements has been at the top of the list of problematic areas since it replaced the bad payment discipline two years ago. This is rather a sad discovery because this grievance seems to be a chronic one and because of the well-known fact that the stronger the economy of a country, the more respected and honoured agreements are.

It is also commercial justice that has continually been the aim of severe criticism. Opinion polls have shown that people believe that the work of commercial courts has become worse since 1998. However, the ratio of the number of cases that have been disposed of to the total number of actions brought is favourable.

Regional Commercial Court in Brno

1998	2000	2001
No of actions 32 661	No of actions 25 074	No of actions 10 773
Disposed of 39 758	Disposed of 33 160	Disposed of 17 181

Source: KOS Brno

Payment discipline is third on the list of sore spots. This problem is above all accentuated by the fact that ability to honour the obligations under agreements is of key importance for a company and for building its good-will. A cascade-like sequence of failures to observe obligations or pay debts usually results in a business climate permeated with mistrust. This lack of trust and reliability affects all the participants and it is usually hard to identify those who have set off this cascade.

Unfortunately, the non-observance of payment terms is a widespread phenomenon in the Czech Republic and it is estimated that the frequency of failure to pay debts is by 30% higher than that in the EU countries.

Determining suitable parameters for measuring the degree of insolvency is a very difficult task since attempts at any

measurement are mostly barred by commercial and bank secrets. The situation is also rather complicated by the use of such payment instruments as bills of exchange, assignments or mutual settlement of claims. The still very high percentage of classified debts - about 25% - that are not repaid to banks by agreed deadlines is, however, sufficiently alarming. The loans by banks that have not been repaid at all or have been paid up after agreed deadlines total about CZK 300 billion, induced insolvency estimated by the registry of claims amounts to over CZK 500 billion. Source: (Nefi Bohemia).

### **Experience of work with foreign partners**

Although many Czech businessmen believe that foreign companies have quickly adapted themselves to the Czech environment in terms of the observance or rather non-observance of ethical principles, our research has not confirmed this. If asked, the managers invariably valued the experience of work with foreign companies as very good.

They look forward to the Czech Republic entering the EU hoping that this will help cultivate the corporate environment. However, it remains to be seen whether such hopes are realistic or not. The European legislation can help deal with some problems, but we cannot expect the EU or an external pressure or even a miracle to enforce the observance of agreements and obligations in general. It would be foolish to think that anyone from outside can change our own morals.

For our firms, this implies that cultivating the corporate culture will remain their foremost task even in the years to come.

### **Tools for improving corporate ethics**

An ethical code may be an efficient tool.

Even though creating ethical codes has apparently become a new vogue (not that it is anything new, professional ethical codes have been known since the middle ages), which is spreading from the U.S. via Western Europe, it is still an efficient tool that can improve the morals of companies and has no doubt proved as such in advanced countries.

In Great Britain, more than 50% large companies have worked out an ethical code as part of their business ethics policy.

About one fifth of our companies (research of 1999) has worked out an ethical code or a document to this effect. Half of those who have no ethical code as yet, consider introducing it.

What can an ethical code bring to a company?

Improved image.

Raised questions that, although implied in the day-to-day activities, were not dealt with separately.

Improved trustworthiness of the company management if it has encouraged the introduction of an ethical code

Involvement of employees in its creation and improvement of their loyalty.

Improved motivation of employees

### **Ethical audit is a scarcely used tool.**

An ethical audit is not a business inquisition. It is a tool that should help discover information about values shared by the company such as whether the company management is trusted or mistrusted, whether the employees are loyal to the company or not, whether they are informed and can approach their superiors with complaints or suggestions. The results are useful not only for the management, but also for shareholders or employees. Employing an ethical audit requires courage on the part of the management since it tests its own trustworthiness.

### **Education**

Education is no doubt another factor contributing to a strengthening of the position of ethics in business. In this respect, we are lagging behind Europe and the world.

Our firms spend no money on providing this type of education for their employees while companies all over the world are investing huge sums.

Still a number of our managers would like to improve their corporate culture and strengthen the awareness of responsibility and loyalty to the company.

Education in business ethics will not make bad guys any better,

but can indicate new world trends in business, bring new inspiration and comparison with the world. Our firms owe their employees at all levels information on this sphere and a view of business from an ethical angle.

Economic globalization is increasingly a question of ethics. Never before did economic entities face responsibility on such a large scale as now. It is clear that the mission of entrepreneurial activities as such will have to be re-defined and criteria or standards found of ethically acceptable (or sustainable) business activity. Those Czech firms that want to succeed in a global world, will have to find solutions to ethical problems no matter if they are facing them today or not.

### **What can the academic community do?**

1. Work on a strong theory, supplying not only ethical but also economic arguments in favour of honest conduct in business.
2. Obviously provide education - in today's Czech Republic there are 19 economic faculties, and most of them have business ethics incorporated in their curricula in some form.

The middle and old generations have not had an opportunity to deal with business ethics in a targeted, systematic way.

Enquiry conducted in 2000 among students and young managers with a minimum of three years' practice has shown differences in the perception of ethics between young people of the same generation. It is not surprising that students are uncompromising in sticking to their principles. Striking is, however, how quickly they abandon their ideals in practice and, above all, the fact that not always they are driven to this by existential problems of the company or by extreme situations, but, more often, by getting into the corporate rut where no questions of business ethics are raised.

Despite all these negative findings of our research (it has been designed to stress the negative features rather than the positive ones), we should also see the positive shift.

In 1995, when the issue became the object of the research, mentioning business ethics only elicited a smile or wonder - five-six years were enough for business ethics to become the subject of serious parliamentary debates.

It is also interesting to compare economic press and the attention it pays to business ethics. We focussed our content analysis on EKONOM, an economic weekly - volumes 1994 to 2001 and extended it to the EURO journal, volumes 1999 to 2001. We defined four categories concerning business ethics and established the frequency with which subjects listed in the Appendix appeared.

Ethical themes appearing on the pages of Ekonom and Euro are becoming more numerous even though slowly.(see Appendix) There is no significant difference in terms of the number of ethical themes published. Improving information and encouraging a public debate on such themes is one of the pre-conditions of a positive shift.

### **References**

1. Havlík, R: Modelování podnikatelské etiky pomocí "fuzzy logic". Diplomní práce FP VUT, 2002.
2. Putnová, A.: Business Ethics as seen by Managers - ten Years after the Fall of Communism. Case Study from the Czech Republic. The Second World Congress of Business Ethics. ISBE. Sao Paolo, Brasil, June 2000.
3. Putnová, A. et. al.: Partial Final Report for GACR: Ethics as Factor for Successful Integration in to European Structures, GACR - 1084.1999.
4. [www.mageo.cz](http://www.mageo.cz)
5. [www.gw.czso.cz](http://www.gw.czso.cz)

### **Appendix**

#### **Content analysis in the Ekonom and Euro weeklies**

The following four categories have been set:

- 1 - articles dealing with insolvency and payment discipline
- 2 - articles dealing with environment
- 3- information service for businessmen concerning ethics such as information of seminars held, new books published etc.

4 - all other articles dealing with business ethics such as ethics in advertising, ethical codes, bribery, etc.

Only those articles have been selected that featured business ethics as their main subject while those only dealing with it marginally have not been included.

Ekonom	1	2	3	4	Total
1994	4	4	3	7	18
1995	2	11	2	11	26
1996	6	26	3	26	60
1997	7	33	2	39	81
1998	10	35	3	26	74
1999	20	22	7	19	68
2000	23	31	4	17	75
2001	26	38	8	20	92

**Table 1:** Number of articles dealing with business ethics in the EKONOM weekly 1994 -2001

Euro	1	2	3	4	Total
1999	23	16	9	22	70
2000	26	15	12	25	78
2001	28	20	11	23	82

**Table 2:** Number of articles dealing with business ethics in the EURO weekly 1999 - 2001