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ENHANCING BUSINESS ETHICS THROUGH SOCIAL RESPONSIBILITY

Abstract

Modern economic activities that are performed in the globalized world and businesses should have ethical dimension as a *sine qua non* for successful business results and business performance. The last decade is popular with the issue of social responsibility of organizations and especially for multinational organizations (corporations) where necessary various measures and instruments have to monitor the ethical behavior, due to the involvement of a lot of employees, shareholders, business partners and customers, managers who have different interests, beliefs and values that should be balanced in order to reach the organization's goals and interests of all included in the community and society. The concept of social responsibility of organizations, used in the big corporation is named as a "corporate social responsibility". Social responsibility is the responsibility of managers to make choices and take actions that will contribute to the welfare and interests of organization, communities and society. Only organizations with good financial performance and big scale industries can afford better commitment to care of employees, shareholders, business partners, customers and community. In this process of taking care for to the people around, personal moral of managers is very significant for the impact of the social responsibility and the moral behavior of the organization. Ethics education is essential for the ethical organization.

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Key words: social responsibility, moral, business ethics, organizational culture, managers,

JEL Classification: M. M. 1. M.14

Introduction

Modern business is characterized by modern methods of operation and management. However, in the framework of particular importance is the creation of a favorable organizational culture as a first step towards successful business results in the short, but especially in the long term. The time of globalization of all social activities, including economic flows, means the existence of strong competition in world markets, and orders the high level of efficiency in business activities.

All business activities must be subordinated to the main objectives of the organization, and in this framework the moral behavior, good interpersonal relations, friendly and positive business environment and culture of the organization have a strong impact on the organizational performance. In the organization, each individual has a specific role and responsibility to work professionally, conscientiously and ethically. In the business activities, the role of the management team is the biggest. Therefore, managers with their personal example, as good people, hard workers, and successful decision-makers have a strong impact on other employees, while simultaneously creating conditions favorable organizational culture and environment, good business atmosphere. By synergy of various activities for successful achievement of established goals and objectives of each organization the role of the managers is primary. For that reason, modern science pays particular attention to the management of business ethics in each organization.

Ethical behavior is necessary for successful business performance and development of the organizations, particularly on the long term. Managers have to act ethically, adhere to high moral principles; organizations have to accept the fact that they have a social and public role and function. For that reason, managers are socially responsible towards their organization, but also to the environment in which they live and work.

Every organization has its own nature of organizational culture which can be seen by the fostering of the moral norms in the behavior of

the employees, the management team, partners, customers i.e. anyone interested in the organization. Current obstacles, temptations, hesitations, doubts and problems which come on the way to successful operations should not be a reason for the change of the ethical attitude. Moral norms are unwritten rules, respected with centuries and are actual in today's modern conditions of globalization.

1. BUSINESS ETHICS

In modern conditions of business activities, business ethics becomes inevitable part of leadership and management and the duty of managers to behave ethically towards all employees and shareholders, partners and customers. Business ethics is part of the philosophy of business, or it is a component of the philosophical theory that deals with the philosophical, political and ethical aspects of the economic activities and businesses.

In the last century and today, to care only about making profit by neglecting the human dimension, has become a past habit, although it is still not excluded in the places where still exists only the cruel law of the market.

"It's hard to define ethics in a precise way," said Richard Daft from Vanderbilt University in the US and added: "In a general sense, ethics is a code of moral principles and values that govern the behavior of a person or group with respect what it is good or bad. Ethics is a set of standards for what is good or bad decision making."¹

"Ethics are moral principles or beliefs about what is right or wrong."² Pragmatic American economists, in their papers and textbooks on management and leadership, pay particular attention to the issue of business ethics and necessity of its institutionalization and nourishing.

The social dimension of business becomes predominant issue of the social justice and is frequently presented in practice and in the academic debates and theories. The commitment to nurturing and acceptance of the moral dimension in the business activities grows permanently in business communities all over the world. The non-

¹ Daft R. L., Vanderbilt University: "Management", Sixth Edition, McGraw-Hill Irwin, USA 2003, p.138

² Garet R. Jones Texas A&M University and Jennifer M. George Rice University, McGraw-Hill Irwin, 2003, p. 89

economic values are very often taken into consideration i.e. the social responsibility of organizations and its leaders, as part of the system of business activities.

The roots of business ethics could be found, in a broader sense, in the 10th Commandments, highly used throughout the history of humanity in everyday life. Despite many theorists and philosophers like Plato, Aristotle, Karl Marx and many other religious people, especially the popes of the Roman Catholic world are dealing with ethics. Thus, in 1891 Pope Leo 13 wrote his work for social justice, followed by more cases of actual popes current issues related to inequality and poverty. Philosophy treats moral as an important question and many theorists have treated this issue as well. Business ethics has roots in the last century as a result of the growing economic activities and there are some questions to be solved with moral norms.

It is considered that November 1974 is a date of "birth" of business ethics, maintaining the First Conference on Business Ethics at the University of Kansas.

Nowadays, in spite of the fact that on the level of the global world corruption, manipulation on the markets, bribe and insurances in economic life exist this does not mean that the ethical behavior is overcome and forgotten. Business activities and businesses whose managers take care about their image and good reputation in order to make profit and lasting presence on the markets, at the same time they should run their business ethically and fair. For that reason, the contemporary management is occupied by ethic norms and standards that should be implemented in the organizational culture and image.

Very often, when managers have made certain decisions, they start from ethical solutions. They are in some dilemmas how to solve some problems and questions in the meantime they do not want to be involved in the general interests of shareholders, employees and partners. In their activities they make decisions which are supposed to have more positive effects than negative ones and to save the reputation of the organization in order to gain more profit. Organizational culture plays significant role in the development of business ethics and growth.

1.1. Social Responsibility as a Strategic Goal

Social responsibility in the economic literature and business practice is treated relatively late i.e. in the 70 years of the last century,

observed historically. However, today it is the subject of a serious study and practice, both in the developed and in the less developed economies in the world. It is closely linked with the ethical norms established in the society and in every organization, creating appropriate organizational culture and as a result of such business activities, they are achieving positive financial results and positive impact on the environment in which it operates.

The term "organizational social responsibility" ("corporate social responsibility") or just social responsibility was first included in the economic theory in the sixties and seventies, with the consolidation of the organizations used in the book of R. Edward Freeman titled "Strategic Management: joint approach."³

Modern attitudes for social responsibility in organizations are relatively new and slowly gain importance in the countries all over the world. It may be considered from the historical point of view where the concept and objectives of the companies were only profit without concern for the issue of sustainability. Perspectives and views of Adam Smith's free trade listed in "The Wealth of Nations", 1776, are particularly influential in the past and important for the understanding of this. For A. Smith, the increased productivity occurs with the division of labor; which in turn is increase or decrease according to the size of the market; and the market is increased to its maximum capacity through free trade. Therefore, he concluded that free trade provides increased productivity. According to the liberal concept, the social responsibility of every company is to maximize profits, creating jobs and paying tax-attitude supported by Milton Friedman, 1983, who still found followers in the political and corporate environments.

Nobel laureate Milton Friedman believes that only individuals can be liable, not the activities or organizations perform activities in accordance with laws, and their goal is to make a profit. According to him, if the business is carried out within the established rules of law and under free competition without fraud, it is only one and only social responsibility to make profit.⁴

But new entrepreneurs and managers in the process of globalization start to find new meaning of the responsibility of business

³ Freeman R. E., Strategic Management: a Stakeholder Approach, Pitman, USA, 1984, p.149

⁴ Friedman M., The Social Responsibility of Business is to Increase Its profits, The New York Time Magazine, September 13, 1970, p.196

activities. Social and environmental responsibility is redefined as efficient realization of socio-economic development goals.

Because of all these, the requirements for new views of business activities of enterprises and their new organizational targets have changed worldwide. They are published within numerous books, charters of international organizations, economic integration, public institutions and state governments.

The most important among them is certainly the International Organization for Standardization (ISO) that has developed an international standard for acceptance and dissemination of social responsibility substance.⁵

On this question ISO 26000 can be accepted as basic definition "ISO 26000 is ISO international standard which provides guidance on the concept / philosophy, social liability. This standard is intended for use by organizations of all kinds, both in the public and private sectors, in the developed and developing countries and economies in transition, to help in their efforts to operate in a socially responsible way, satisfying the growing demands of the society as a whole".

ISO 26000 is a guide for social responsibility which refers to actions and policies that need to make the organization to show that when making its decisions and undertaking its activities, the social considerations should be taken into account and also the trends and aspects of environment protection, human rights and health and safety at work.

⁵ <https://www.iso.org/iso-26000-social-responsibility.html>

Picture 1. Social responsibility: 7 core subjects



Source :ISO 26000 Newsletter, March, 2010

In the last decades the EU altogether with its bodies have adopted a lot of documents relating to the social responsibility of EU countries and the candidate ones.

In the European Union there are several organizations that deal with the issue of social responsibility⁶. All these bodies (commissions etc.) created a series of documents of great importance to the issue of social responsibility.⁷ In October 2011 EC announced Recover Strategy for Social Responsibility for 2011-14 for support the entrepreneurship.⁸

In 2006 the UN adopted a "Charter for Responsible Investment, as a Guide for Investors", the preparation involved 12 countries and 70 investors, with a task for signatories to have responsibility on the long-term in order to protect the interest of both sides.

⁶ http://www.europarl.europa.eu/meetdocs/committees/empl/20020422/01-0366_en.pdf

⁷ europa.eu/rapid/press-release_DOC-01-9_en.pdf

⁸ http://ec.europa.eu/index_en.htm, memo

The United Nations have a "Global Compact" where a codex of ten principles of behavior is involved regarding to human rights, labor, environment, anti-corruption etc.

In Macedonia in 2008 the National Agenda for corporate social responsibility (CSR) for the Republic of Macedonia is adopted, according to which every year the most responsible social organizations in Macedonia in various areas are declared (eg Pharmachem, Alkaloid, T-Mobile, Pivara- Skopje, Sparkasse Bank etc.).⁹

Being socially responsible means not only fulfilling organizational goals, but to respecting different aspects, such as philanthropic and ethical responsibility. It means a commitment by the business activities of the economic sector to behave ethically and contribute to the economic development, improve the quality of life of the workforce and their families as well as the local community and the society. With this, corporate social responsibility encourages companies to give up on their only objective of maximizing profit and focus on the importance of improving the socio-economic environment in which the economic and social standards of the community exist.

In this regard, corporate social responsibility (CSR) can be simply defined as an additional commitment by businesses to improve the social and economic status of the various interested / concerned parties involved in accordance with all legal and economic requirements.

There are several approaches to the treatment of social responsibility of organizations as a traditional (meeting the primary goals of the enterprise or a profit), then the responsibility to shareholders, responsibility to the company and to the wider community.

In modern terms, the social responsibility of enterprises / organizations is particularly important because it gives the growing trend of creating social prosperity for all members of the society for future positive human development.

As a best practice in the field of social responsibility is "A Model for Responsible Management" as an effort of German businessman and managers of big companies to regain the lost trust through self-commitment for a responsible management in the business sector in the end of 2010.¹⁰

⁹ <http://www.mrfp.org.mk/mk/>

¹⁰ Zarezankova Potevska M, Vesoska Taneva A., Business Communication and Ethics, 2nd August, Skopje, 2012, p.82

The companies could be more social responsible if operate with profit. More activities out of the goals of the organization ask for more resources (human, financial) for them.

1.2. Programs for Ethics Education

Long Life learning is now seen as a necessary tool for every person employed in any organization who wants to be successful in the long term. Hence, training of ethical behavior is essential for successful business and maintaining the good reputation of the organization which can be trusted and respected. Training in the sphere of business ethics is important in order to help in maintaining employees` moral. This would be a decent and acceptable level of help to those with doubts about the correct behaviors and decisions, confirmation of their behavior and attitudes or in one word maintaining a high moral in the organization. Training courses for business ethics make organization more capable for staying on the market. The ethics and market law is not contradictory, contrary to the unacceptable profits earned by violating applicable rules and standards, such as exploitation, environmental destruction, corruption and distortion of market competition.

By gaining knowledge from the training and enforcement of ethical behavior in everyday work, the relationships with people in the organization with external partners (suppliers, customers, investors, etc.) will improve and meantime the opportunities for sexual harassment, discrimination, etc. will be reduced. However, only the interaction of all the factors in the improvement of ethics in an organization, with daily activities, encouraging moral behavior of all involved in the organization, a higher degree of ethical behavior can be expected thus reducing the ethical issues, addressing ethical dilemmas / hesitations of managers in a relatively quick and less painful way. A lot of theorists give very big importance of new knowledge and training of young people and students.

A very famous ethicist Hans Kang pointed out the problems in the ethical awareness of young people, whose noticeable crisis of values and disorientation in morals and actions are easily seen.¹¹ He advocates the necessity of re-awakening to the role and responsibility of parents and the family in general, but indicates that they have to overcome the crisis over the educational role of educational institutions, which resulted from the

¹¹ Kung H., *Global Ethics and Education, in the Future Theology. Essaying Honor of Jürgen Moltmann Volf and others*, Cambridge, U.K., 1996, p. 267

abandonment of the classical form of unity of education and the domination of "education" as opposed to "upbringing".

Through the process of training, employees are introduced to the basic goals and tasks of the organization, as well as the means and methods of their realization without disruption to human dignity, loyalty, commitment and respect. The task of the training is to encourage employees in their business to act fairly, humanely and with high moral.

2. SOME ASPECTS FOR SOCIAL RESPONSIBILITY IN THE MACEDONIAN BUSINESS SECTOR

The issue of social responsibility in Macedonia is more current in last decade as a result of the National Agenda for social responsibility of enterprises in Macedonia adopted in 2008.

Observing the financial sector of the Republic of Macedonia, it can be said that progress has been made in terms of undertaking a range of activities and projects which corporative social responsibility, despite the low level of profitability, expressed recent years.¹²

The example of Sparkasse Bank AD, Skopje clearly indicates that despite the low level of profitability achieved by only 0.1% in 2013, the Bank implemented a series of projects of interest to the wider community. Indeed the Bank's vision is clear. Through greater corporate social responsibility and profitability increases.

Profitability is manifested through several indicators like:

- Return on own Equity (Return of Equity-ROE)¹³
- Return on total assets (assets from the balance sheet) - (Return on Assets-ROA)¹⁴
- Net interest margin-related revenues and expenses based on interest.¹⁵

In Sparkasse Bank AD Skopje profitability indicators are as follows: ROA is 0,1%,ROE is 0,1%

¹² Potevska Kolevska V., Corporate Social Responsibility in Financial Sector and Influence on Profitability, Economic Institute, Skopje, 2014, p.281

¹³ <http://www.investopedia.com/terms/r/returnonequity.asp>

¹⁴ www.investopedia.com/terms/r/returnonassets.asp

¹⁵ https://en.wikipedia.org/wiki/Net_interest_margin

And Net Interest Margin = 2.9% (total revenues and interest expenses / Total loans).

Other financial institutions, for comparison, are making implementation of the concept of corporate social responsibility (Procredit Bank has ROE = 13.4%, Alkaloid has ROE = 8.6% and T Mobile ROE = 16%) have return on equity less 20%, which according to international measures shows a small factor and low profitability.

In determining the profitability, except as expressed by the ROE, ROA, net interest margin, it needs to take into account other factors specific itself for each enterprise and financial institution.

Profitability of the organizations and social responsibility are conditional and dependent on each other. Therefore it can be concluded that profitability versus social responsibility can be treated in two ways: without profitability today there is not social responsibility in the future and without responsibility now there won't be any profitability in the future.

In our example, return on equity- ROE is a small percentage, but Sparkasse Bank AD invests in social responsibility as part of their corporate standards. It must be emphasized that this Bank is one in the country with a projection for the future to grow with more capital (as the deposit base and loan portfolio) with good management and recruitment of highly professional staff.

Stopanska Bank according to data taken from their Annual Report for 2012 has a return on equity (ROE) of 8.6%, ROA is 1,1% and Net Interest Margin to 3.8%. The interest margin is bigger in this Bank as a result of higher credit exposure and better loan portfolio, in comparison with Sparkasse Bank.

Conclusion

Corporate social responsibility refers to the duty or responsibility of the managers to make decisions that will nourish, protect, improve and promote well-being and life interested in the organization, like employees, partners, customers, shareholders and community at all. Social responsibility is the balance between organizational power and its responsibility, social activities undertaken by the organization affirming the public and leads to long-term success. It also solves the social problems created by the organizations.

The critics of social responsibility are generally focused on costs of social responsibility that lead to reduced dividends and boost commodity prices. However, businessmen are created to run the business activities rather than to solve social issues. The criticism on social responsibility refers to the economic aspect which is more focused on producing and running the business as primarily profitable for owners and shareholders, producing goods and services and achieving positive financial results. But it is a fact that moral attitude and market law are not contradictory, moreover they are complementary in purpose of welfare in the society.

The issue of corporate social responsibility in Macedonian society is in its implementation, and is interested only in business benefits - making profit and nothing more. This way of awareness hardly ever gives good and positive actions. Although there is some progress in this field of ethical behavior of our managers, in general, the country is far from any special business activities in this field, except some corporations which get the prices from the National Coordinative Body established in the Ministry of Economy in 2008 and fortunately it is still active today and nominates some good corporations as responsible ones in different fields like protection of the environment, human resources, education aspects of employees and local community development. In 2008 the Strategy of Corporate Social responsibility was prepared and that is a significant step forward for activities in that field.

On a long path, social responsibility is a worthwhile category, which should be a priority in business operations, because by undertaking socially responsible activities the reputation of the enterprise will be increased and a good image will bring more profits.

In Macedonia in the future, in more relaxed market conditions, companies can increase their potential for more profit and have to think more for social issues that should be solved, because social responsibility is becoming a new business philosophy without alternative. The education system should be adapted to the permanent new trends and initiatives through training, seminars, and courses for ethical behavior as a necessary tool in pursuing the goal of a socially responsible organization. The modern society needs modern education and moral behavior and good relationships between the people and organizations in the society.

The cruel capital system is still present in the world but the new society of welfare has appeared in many countries like Sweden, Norway and others.

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