

Business Ethics in Modern Russia and Sustainable Economy

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Abstract

During the last years business ethics have become the point of interest in our country, but there is no mutual understanding of the subject and its use to the business community in general and to the single entrepreneur. There are several models of business ethics that exist in Russia. Legal one means that businessman should obey the law and do not pay attention to the rest. Clan model means that businessmen have to be honest and respectable among his business partners, clients and employees. However, these norms do not work for the competitors. Reputational model focuses on every step and subjects of business process. Businessmen should follow both legal and moral norms. They can take part in evaluation of new norms but have to be oriented on live morality. Social problems (such as ecology, education, etc.) have to be solved by the official state. Charitable model means that personal beneficence of the businessmen can help to solve social problems. Socially responsible model focuses on additional freewill commitments that enrich business activity. These models could be reduced to 2 main approaches to business ethics: a) business ethics is the way to sustainable entrepreneurship; b) business ethics helps to insert entrepreneurship to the system of general social values and apply it to mutual interests. The first approach dominates in Russian business community. So,

business ethics is a tool and helps to run effective business.

During the last years business ethics became the subject of interest. Many business organisations accepted their own ethical codes. Still, there is no mutual understanding of business ethics and its use to the whole business society and to the single entrepreneur. In this paper I would like to set up questions in this field and try to answer them.

One of the senses of morality has the meaning that private interest should be bordered in accordance with mutual interest. From the other hand moral principles give the room for personal and public action and helps to make decisions that correlate to common morality. This is the way for many entrepreneurs to reduce expenses in ethical business environment.

At the same time there is special feature of morality to form traditions and verify social modes of behavior. This is also the way to conserve some old-fashioned and harmful types of social activity.

According to Gusseinov There are always many tendencies and values in public moral consciousness, so "various ethical strategies are possible: dogmatic one chooses only one ethical code and denies others, and relativist strategy that does not accept unified morality ". (Gusseinov, 1995, p. 96).

However there is one strategy that Gusseinov regards as dominant to European culture - the critical one. "It criticizes moral consciousness and elaborates the new comprehension of morality which regards the competing codes as equitable".(Ibid.)

Later I will show various models of morality that exist in business community so the question - *Is it possible to build the unique system of moral values, and if so what kind of norms are due to it?* - is the principle one.

There emerge several problems in the field of business ethics. *As personal behavior is restricted by moral norms based on mutual interest - what is this interest?* Another question concerns the limits to particular good for common good, or do they float automatically? This question is intrinsic for the activity in economics. There are two main theories in economics that contradict each other. Liberalism argues that mutual good could be reached only with the help of free development. Communism, on the contrary, is based on totally controlled economy. Various "intermediate" theories also do exist.

The activity in economics has its own intrinsic goals so it is important to figure out *is there any contradiction between ethics and economics, or moral behavior helps to reach high level in economics. Are moral norms in economics absolute or relative? Is the conflict between moral values take place?* For example, new technology can be helpful for the society in general but be harmful for some social strata. Or new expensive technologies give less mutual good than former level of being.

An important question to understand the power of business ethics is the problem of moral subject. *Who is the center of moral decision making - the single person, the firm or the state administration? What are the levels of moral responsibility?* For example, the employer should be corporate responsible or socially responsible?

Abruptness and the high speed of modern technology and economics develop the prognostic field for means and ends calculation. As it is evidently impossible to calculate all the consequences, there emerges the border of decision making. What is the right way to set it up?

Business ethics is connected with general values in economics. These values refer to the social environment where economy is born. Its brief historical description is the following:

- *traditional* society has no special business ethics, The system of religious norms helps

to balance economy relations. For example, the forbidden percentage.

- *industrial* society has its special business ethics based on Protestant ethics which regards labor as the main personal duty at the face of God. Developed industrial society reduces the notion of responsibility in business to the law obedience and corporate loyalty.
- *post-industrial* society gives the new meaning of responsibility, this process is unfinished yet but contradicts with traditional business targets and initiates public discussion on business ethics' new norms.

Industrial and postindustrial societies have definite systems of moral values:

Law. Businessman should obey legal norms, the rest values are beyond his activity.

Clan. Moral norms (responsibility, decency, fidelity) are obligatory for businessmen among his business partners and are not obligatory among the competitors.

Reputation. Moral and legal norms are obligatory for all business actors. Businessmen can take part in discussing new norms but should follow only working regulations. Social problems (environment, education, etc) are in public administration competence.

Charity. Businessman should help to solve social problems in private manner. Charity is understood as activity beyond business interests.

Social responsibility. Businessman should have free will to assume additional obligations to make his business better: for example, he should follow environmental prescriptions and set up more strong norms independently.

These ethical systems can evidently collaborate. Businessmen can choose one of them according to their dominant activity. In history perspective reputation and charity are popular systems in developed industrial society. Social responsibility is actual in post-industrial society. Clan system is popular in Russia.

It seems that social responsibility is the best type of business ethics, but it is often in conflict to the rest social and economic values - such as private property and income. I would like to focus on this conflict in following cases.

The first case is from the field of pharmaceuticals. The world pharmacy market is about \$300 bln. In the 1990's the income in this sector was 15% a year. Joint market capitalization of the American 10 largest companies is about 1 bln a year.

Meanwhile the main income is from the several "shock" medications created during the last years. According to the TRIPS Agreement for the defending of the intellectual property rights in trade, the company-creator has an executive right for production for 20 years. After this the patent is over and medications become so-called "generic drugs". Now every company has the right to produce former monopoly product under different title. Competition makes the price lower for 5-10 times.

Obviously pharmacy companies try to keep their status. They argue that their expenses for the shock drugs laboratory evaluation is about 600 bln and 400 bln are marketing costs. The pharmacy industry leaders need their money back from the customers. They have no this opportunity if the drugs are produced by the firms that never participated in its creation. Customers will never get new effective drugs because of this underpayment.

From the market point of view the leaders of pharmacy companies fight for their intellectual property right. This is quite clear position in economics. Though the problem has another dimension. Modern drugs are too expensive for the huge amount of poor countries. So, future benefits (new drugs) overcome the real present opportunity to save millions of people.

This is the case, for example, when the US government, who fights for the market values, asked German company Bayer to reduce the price of

Cipro antibiotics. In 2001-2002 there was the anthrax terrorist attack risk, and Cipro was the most effective care. If Bayer do not reduce the price, American companies have to produce Cipro themselves.

In October 2002 the USA President Bush initiated to reduce the time for the generics prohibition. In present time the author can prohibit generics production for 2,5 years which is regarded as the term of court examination. In practice it is used several times to gain time of production. Changes could help the US citizens to save \$3,5 bln and the firms-creators could also have their research money back. The receipt for the branded drug is now about \$72, and for generic is \$17.

Similar situation is in the field of computer programs and database copyright. Two systems of values contradict here: one protects copyright, another argues for the information exchange. Each position has its own logic. Those who argue for the copyright protection, similar to the drug creators, stress the stimuli for future development cut by liberalization. Freedom for information exchange backing deny artificial borders that lead to less effectiveness. Moreover, program products are too expensive for underdeveloped countries. Another aspect of this problem concerns fundamental science. Great part of essential information is not protected and makes no profit to the authors as there is no patent law for basic research. Applied science use fundamental studies to make profit.

Another aspect of this problem concerns the period of XVIII – XIX centuries when science and technology have been developing very quickly. The short patent period gave room for future development. In nowadays the copyright monopoly makes problems for the rest intellectual market members if they need the monopoly product.

If the author gives no right to use his intellectual property and does not licence his product nobody can help it. For example, if somebody patents his know-how for cancer treatment and gives no permission to use it people should keep dying till the end of the patent term.

Another situation is more common. Copyright holder sets up the price than consumer can not afford. It often happens at the computer programs' market. The prices of popular Microsoft Windows 2000 and Microsoft Office 2000 are fluctuating from \$100 to \$400, which is comparable with average earnings per month for Russian users. So, computer pirates help to spread programs before official dealers start to sell legal copies.

The computer firms real practice mix these two approaches. Microsoft argues for the copyright payment and refuses to decode its systems. On the contrary, Linux policy of the net research is based on the voluntarily intellectual contributions. Linux followers stress the creative enthusiastic method of their work, available and high quality product. Microsoft representatives emphasise non-market technologies of Linux - such as social enthusiasm, vanity and protest against the dominant state of affairs; besides, to produce modern products one need modern management with centralized direction. This will help to set up product continuity and compatibility of hard- and software. Linux products have no real host and real responsibility to meet consumers' needs. According to Microsoft, Linux' free intellectual exchange is harmful to further progress in technology as there is no money for future research. Companies like Microsoft spend huge resources for innovations which is impossible for Linux.

As one can see the subject of the quarrel is one the same and is not the speculative one. These are models for real business with big money.

These cases show that every business has its value basis. There are two alternatives for business ethics: a) business ethics as a tool for stable enterprise; b) business ethics is the way to build the system of social values common for business and mutual interest.

The first position is popular in Russian business community. According to M.Khodorkovsky, President of UKOS company, one of the first-rate Russian businessman, "the main problem for national business now is not the high taxes or bureaucracy, but the low level of business ethics." (Russian Economy...). No positive trend in economics is possible without free will of businessmen to follow moral norms adopted in developed countries. The main thing here is to overcome corruption. M.Khodorkovsky stresses that "Russian companies try to transform into transnational corporations but they are regarded outside the country as fully corrupted and competing with the help of dirty methods. Everyday practice proves this image. The most clear examples are the attempts of unfriendly absorption with the help of artificial bankruptcy and corrupted law system". The editor's comment is quite interesting. An article is titled "You are wild things, gentlemen" and has no signature. In the end there is the publisher's resume: "Investment in ethics and reputation is no less effective then in new equipment. The companies that make this kind of investment earlier have to be more successful in attractive new environment. Nothing personal, only business."

So, business ethics is regarded as a tool for effective enterprise. This point of view is also represented in the report to the World Business Council for Sustainable Growth (the report is devoted to the environmental aspects of business activity). The factors for business ethics growth are:

- employees' support in various fields;
- better moral environment;

- more qualified advisory for policy making;
- more social approval of the company's activity;
- less risk and responsibility (as stakeholders are informed about possible damage);
- more self-control and less administrative control;
- control divisions assurance that business meet their requirements. (Shmidheiny, Zoraquin, 1998, p. 71).

So, business ethics is regarded as market rules for effective enterprise. Like Adam Smith's thesis - "give me what I need and you will get what you need" (Smith, 1962, p. 27-28). Let us accept some rules and finally we get common good. Here common good is regarded as the sum of local benefits. Every entrepreneur gets additional income and this is profitable in general for the whole society.

Personal profit for each businessman is not the amount of roubles or dollars, it is expressed in terms of "sustainability", "reputation", "certainty", etc. Sometimes it happens that businessmen try to estimate their morality in a simple monetary way - according to M.Khodorkovsky, his company spent about \$300 bln for the last two years which resulted in \$7 bln capitalisation. Each dollar makes \$23 profit.

Speaking about this rout in business ethics the USA authors R.Frederick and E.Petri stress that " this estimation does not mean that comprehensive businessmen are free from ethical dimension in business. They agree that ordinary norms of everyday life such as trust and justice should be accepted in their entrepreneurship. Regular business is impossible without these norms. Those who deny business ethics mean that they do not proclaim some special norms to prevent somebody's harm or to sell special products". (Frederick, Petri , 1996, p. 72)

It seems that this position does not count on further aspects: a) business is the part of the

communal life and obviously influences it; the refusal to solve social problems is also the moral position; b) business is the part of politics and influences the law; c) so-called "market decline" to pay for communal goods such as clear water, fresh air, etc. It means that business ethics should not be reduced to business behavior, but take care about wide social environment.

This problem has another apply in *abrupt growth* of technologies because of their quick progress and *ambiguity*. For example, at the beginning of the nuclear era in the field of power engineering nobody could take care about nuclear disposal. In nowadays this problem is very sharp and unsolved. Nuclear power engineering itself is discussed for years: its opponents pay attention on risks and trash, its advocates argue that traditional power engineering can not solve modern problems, have no room for growth and environmentally is worse then nuclear one. Each research group blames the other in lobbying the interests of big companies. It seems that their expertise is not correct.

This situation, and many similar, have no solution in terms of business activity. It is solved in real life and decision making policy. Companies apply strategies for growth and often do not discuss in public their goals. That is why business ethics norms should also focus on social perspectives.

Here emerges the problem of moral subject within the business community. What is the normative source and what is the matter of moral rules. One point of view proclaims that rules should be set up by law. All additional free will actions should be excepted from practice. For example, German philosopher K.Homan argues: ""Market decline" is in the alliance of the collective problems. Finally only collective decisions can help to solve this situation. Individual requests for conscience are not enough in principle as those people who follow true conscience can be exploited by the rest. Moreover, exploited

moral behavior leads to erosion of morality as singular companies and persons do not agree to be exploited for a long time. (Homan, 2001, p.239).

That is why, according to K.Homan, businessman should not accept additional free will liability. For example, the firm should not follow more strict environmental norms compare to legal prescriptions. This is not effective for market economy and intervenes morality: " If institutions for sanctions and encouragement regularly punish moral behavior by economic harm, so morality will quickly be destroyed in complex world which is based on deep division of labor and anonymous exchange relations; it should not be stable". (Homan, 2001, p. 257).

Classical liberalism also supports this position. L.fon Mises argued: " The nature of the thing seeking for consumer is not the problem for the capitalist and entrepreneur. They are consumer's servants . They do not prescribe anything to him. They will give him poison and dangerous weapons for his sake. But nothing is more false than a presumption of high profit for bad purposes goods and low profit of nice purposes goods. Simply more profitable are rush goods. Profit-hunter produces the goods with the most disproportion between demands and supply." (fon Mises, 1994, p. 286)

Famous modern American economist M.Friedman argues: "It is hard to say if the attempts of honorable businessmen to lay on social responsibility are reprehensible, but they talk so much nonsense that is dangerous for free society foundations, as they support famous idea that pursuit of profits is dirty and immoral and should have external control. Meanwhile, to accept this point of view means that external forces for market control are looking like bureaucrats and not like social conscience of competent individuals."

And later on: "The system of private property and private enterprise treats top manager as an employee. He is responsible to his employers for making as much profit as it is possible facing social law and moral norms" (cit. Frederick, Petri, 1996, p. 75).

Russian businessmen have the same point of view. For example, the Alfa bank President P.Aven believes that " we work for stackholders and should use all legal opportunities to make money. I think it is immoral to form bad rules. Sometimes we tried to change bad rules, as we regarded it, - for example, we struggled against the idea of deposit auctions. Nevertheless if the rules do exist we follow them. I think it is quite idiotic to mix the law and morality. The bankruptcy law is bad, but it is legislature establishment responsibility. Everybody should act in borders of their competence."

I think this approach is used up. It depends on many circumstances. Modern society is very variable, and this is the feature of economy growth. Diversified society is capable to innovations and self-control. The most qualified people fight for new ideals, and their position has social imperatives. Various synergetic effects work constantly in modern society: changes result mass activity which sums up personal growth.

From my point of view the main principle for business ethics should be the notion of *compromise*. This position takes into account wide field of interests and final decision makes minimum complaints. Business interests should be proved in moral sense as social prosperity depends on business community.

General scheme of business ethics growth should include personal efforts of businessmen, institutional change for normative activity, and legislative change.

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