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Valentin CALINOVICI

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Can be the Code of Ethics an Important Piece of the Big Picture Companies' Puzzle?

Valentin CALINOVICI[1]

Abstract

The aim of this paper is to analyze the relevance of a Ethical Code for the efficiency and healthy developement of a business company. I know that a lot of work is required for this code to be fulfilled and a lot of studies reveal that companies need the percept and the values stated by ethics codes in order to have a healthy development. But if it does not comply with the code of ethics, what happens? These are not such laws in order to be able to suffer the consequences immediately, but are just recommendations for better development. Can a company grow in the absence of an ethical code? A company's activity is a compendium of factors that work to fulfill its purpose or in a related way. A component factor in this compendium is also ethics, transposed by the company's code of ethics. It is true that a company is a very complex compendium of factors that interact in order to generate the purpose of its being. But a theoretical point of view, like those stated in a ethical code, can be really helpful? In 1985 – 2001, Enron Company was one of the most innovative and appreciated company in the USA. However, this company has developed all these years only with few influences by its ethical code.
Enron began to violate ethical values much more 5 years before bankruptcy. For five years, the company did not feel that breaking these values, the company's overall status is on a negative trend. Certain management mistakes have led the firm to bankruptcy, but if it can be considered a cause of bankruptcy failure to observe the code of ethics, why has it been so many years that these consequences take effect?

Keywords:
Code of ethics, utility, time, influence, relation

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[1] PhD student, Faculty of Philosophy, University of Bucharest, Romania, calinovici.valentin3@gmail.com

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Corresponding Author: Valentin CALINOVICI
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Introduction

If the industrial revolution started towards the end of the 18th century, it was trying to reduce the workload made by people and to create more time-consuming production with machines, "the end of the 20th and the beginning of the 21st century brings the concept of business ethics [12, p. 21], becoming a self-standing business science in the early 1990s" [14, p. 13].

Ethics was introduced in the business sphere with a very clear goal from the beginning to translate the values of primary ethics mentioned since the time of Greek philosophers in the practices recurring companies. Their need turned out to be the case with the passing years, even though at first the relationship between ethics and economy was not clearly defined.

If a law is broken, there is also the penalty that can occur shortly after the act has been consumed. But if the precepts of an ethical code are not respected within a company, the consequences of a punitive nature are immediately enforced? Ethics in a company's life comes in the form of recommendations most of the time, recommendations that, if the employee respects them, the likelihood that both the employee's and entity's satisfaction is at a very high level. Going on the hypothesis that it's a good thing to respect the ethical code, I wonder who the decision-maker and the supervisor are to respect these values. In most ethical codes, those virtues and values are mentioned which, in an ideal world, seem indispensable. But in the context of the lack of an entity supervising compliance or the consequences of non-compliance may occur late or never, I wonder whether it is necessary to have an ethical code in the organization chart of a company.

The importance of the ethical code in the company's development has grown in size with the passage of years, reaching 95% of the top 500 companies in 2005 to have an ethical code [15, p. 179]. Ethical principles contribute to increasing loyalty and commitment of employees to the employing company as well as contributing to the success of the company. Thus, "ethics relate to what must be as science relates to what it is." [3, p. 10]. In the next sections, I will discuss the usefulness of an ethical code in the conditions in which the consequences of non-observance of this code may occur much later than the date of the act.

About ethical codes and business ethics, literature is very generous, offering treatises, books, articles, and profound analysis that can come up with many ethical questions. Of these, in the present work I used Albescu Oana Maria with *Etica in afacerile internationale contemporane*, *Practicile multinationalelor la inceputul secolului XXI,* Arnsperger Christian, Parijs van Philippe with *Etica economica si sociala,* Ferrell O.C., Fraederich John, Ferrell

Linda with *Business Ethics. Ethical decision making and cases* and Morar Vasile with *Etica in afaceri si politica.*

The facts

In this paper I analyze the importance of the ethical code by taking the case study of Enron, one of the most developed companies of the late 20th century in the US. Enron has been active in the gas market both on the US market and outside the US. The 1985-2001 period, in which Enron developed and became the seventh largest company in America [1], was one in which there was little emphasis from the state on ethics in the business. By the year 2000, following a survey conducted by employees of large US companies, it emerged that 48% of surveyed employees had made an unethical act in the past year [4]. This survey shows that during the period from 1990 to 2000, ethics did not occupy an important place in the company's procedures as well as among the areas of interest of the employees. In addition, there were no other sanctions imposed for violation of the ethical code.

This company offered its employees the code of ethics of the organization that everyone had to enlist and commit themselves in respecting it under their own signature. The ethical code of the organization came into attention of media in July 2000, in one of the best economic years that the company had [11]. The ethical code of this company is a very large one, totaling 65 pages [16].

This ethical code, though belonging to a top 10 US company, seems very voluminous compared to other large companies that have a page of up to 10 pages, reminding Shell [22], Fererro [17] or the Romanian company Electrica [18]. During the period when it was structured and issued to employees, the company went through the most prolific period since its establishment, often being remembered by prestigious economic magazines such as Forbes. At that time, Enron was the clearest example to be followed by the other companies, focusing on the statements of executives who were crystallized in ideas of innovation and recalling the principle of ethics applied in the business developed by the company.

Following the statements made by the company's representatives, the success was also based on the observance of the universal ethical principles and their exigency in terms of their transposition into the company's activities [6]. To this point, ethics was part of the company and was clearly delineated in all the projects undertaken by the company. Thus, it was seen as an important piece for the development of the company. But although the new ethical code was seen as a decision-making tool for managers in the process of solving problems, Enron went bankrupt in 2002. So the question arises whether there was any causality with ethical code. The relevance of the Code of Ethics has increased with the passage of years as for today's Ford Company, labor and environmental norms have been important to the company since the 1980s, aspects that seemed insignificant to Henry Ford in the 1900s [5].

Ethical code issue

Although the integrity of their policies and the code of ethics was presented as strength for company, after Enron asked to enter the bankruptcy law, American state institutions began investigating the causes that led to bankruptcy. In the minds of financial analysts, business partners and the American public, a question arises: How could a company that has an ethical code so strongly assumed by the employees get on the brink of bankruptcy? Although the voluminous ethical code was very carefully created, according to the results of federal investigations, many of the provisions of the code of ethics were not respected by those who had to ensure that it would be implemented, namely leadership.

The reasons for the bankruptcy of the company were caused by the non-observance of the economic, criminal and non-observance of the ethical principles assumed by the ethical code of the organization.

A first cause of bankruptcy was the failure to respect financial reporting. Internal financial analysts, under the leadership of Andrew Fastow, the company's financial director, were threatened with losing their jobs if they reported to the state institutions the real negative situation of the company [19]. The principle of responsibility for financial reporting was clearly set out in the organization's code of conduct on page 60, and was clearly violated by one of those responsible for supervising compliance. Hiding real data about the mother company and the subsidiary companies has only delayed that those small inconsistencies and losses increase their volume and lead very quickly to bankruptcy. This practice in the organization not only contradicts the ethical principles assumed in the code, but it was proved in the report of the institutions that investigated the bankruptcy of Enron that it was a criminal offense, given the situation of the lying reports offered to the state institutions and to rating agencies that were to publish repeat reports as true.

Another breach of ethical principles recalled in the organization's code was the company's growth target. Although any company wants to grow as fast and productively as possible, Enron has made a decision at management level to develop in an unethical way by encouraging an organizational culture based on unfair competition. "Jeff Skilling, one of the company's top executives, has created a very tough motivation system, promising 20 percent employees, annual bonuses, salaries, and company shares up to $ 744 million." [13]. For the last salary of 20% of the employees who did not reach the targets proposed by the budget, the consequence was the loss of the job. Moreover, it was encouraged to get results in very fast times, with less emphasis being placed on the method by which the employee was able to reach his sales targets. Through this employee motivation scheme, the company's management did not encourage ethical code-based competitiveness, and more than that, it did not support it in planning the annual revenue budget.

Encouraging profit-generating projects for the company has led to a competition that is so damaging to the environment, as mentioned above and otherwise prohibited on page 54 of the company's code of ethics. Rebecca Mark, the director of an Enron subsidiary, has created and developed an electric power plant in Dabhol, India, very damaging to the environment and the population [8]. Although the project was initially encouraged by US and Indian government officials, it had to be stopped a few years after setting up due to Enron's high prices that earned only the company and not the Indian state, according to the contractual agreement assumed, besides the problems the environment it generates. The company's goal was to raise as much money as possible in a short time. For employee Rebecca Mark, the gain for this transaction was $ 28.8 million [9]. For the Indian state, this business was both financially and functionally damaging, so even though the contractual period was much longer contractual, they paid a policy of eliminating Enron from the business in order to be able to develop the power plant project on a level playing field.

Enron has presented a clear contradiction in conceptual terms over the past 15 years before bankruptcy. The presentation of the code of ethics, in contrast to its actions of non-compliance by the executive team, denotes the fact that a false image of the company was expressed in front of investors and in front of the public pine. The ethical concepts contained in the organization code are not only theoretical, they also have practical signatures with strong influences in the company's good work.

The need for the ethical code

If in 1985, when Enron was founded, ethical principles were at the core of the sustainable development seen by shareholders; over the years the desire to develop created the premise that those principles mentioned in the company's ethical code should be adjusted to the extent company growth and awareness of their importance. Until some key people at the head of the company such as Jeff Skilling or Andrew Fastow came, expansion decisions were made in accordance with the laws in force, combining ethical principles with the macro prudential economic system available at the time. Until 1996, the man who demanded the well-knit principles of development was Richard Kidner. As soon as he left the company, Jeff Skilling gave up the application of the code of ethics principles and focused more on the fulminant development of the company, which is beneficial from a reputation and financial point of view for himself and for the company. He managed to grow the company very much in a very short time, just 5 years, from 1996 to 2001. But this development was not without negative consequences. Fraud and false statements committed in front of and in relation to the authorities during the 5 years led to the creation of an unmanned situation: bankruptcy.

Enron's practice until 1996 was a prudential one, focusing on observing the laws and ethical principles that they knew then. It can often be observed that ethical principles are interrelated with the laws of a state, so that most often when an ethical principle is violated, the consequences may also be of a legal nature. In the context of developing the company at 20,000 employees, with wages and taxes paid to the state, for Enron, raising ethical standards was a necessary aspect, being considered a powerful influence factor for many people.

For a company of this size, any inconsistency between what they say and the actions they take can lead to very large fines or even the dissolution of the company. Failure to comply with ethics in relationships between employees or employees - clients, which are not necessarily and legally incriminated, may lead to lower investor confidence [10] which, if repeated, can easily lead to very large fines on the part of the institutions regulatory framework [20]. "Companies have recognized since Enron bankruptcy the benefits of corporate ethics and the link between business ethics and financial performance."[7].

How did both Enron and other companies have image problems as well as economic issues? - This question mirrors the importance of the factor called ethics in the complex of factors that make up a company. The importance of ethical compliance by a company "generates a higher retention of employees, helps to avoid the collection of fines by state institutions, reduces the company's risks in its partnerships, and helps increase trust from both collaborators and customers." [21]. Enron might not have become an equally large and innovative company that might not have paid so well a share of employees if it respected the ethical code assumed by management. But if the company respected the principles of the code of ethics, maybe it would have been this company today and it could have avoided its disappearance!

The factors influencing the development of the company come from both the company leaders as well as from the organization and external environment according to table no. 1. Thus one can observe that ethics is made up of a series of complex and interdependent factors.

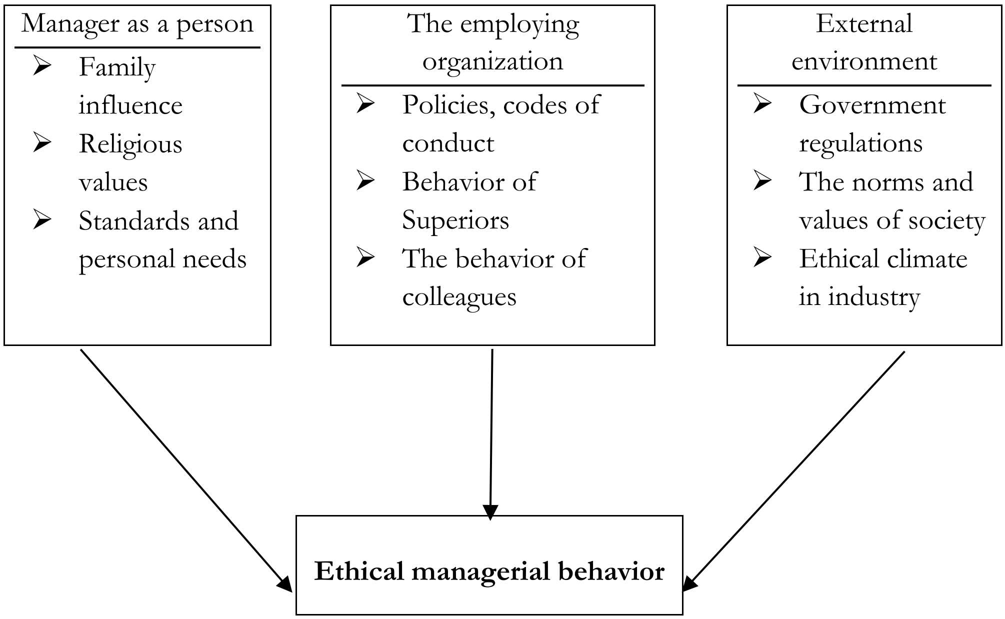

Table no. 1 Factors that influence ethical managerial behavior

Source: Diaconescu Marcela Carmen, Etica in Afaceri, Editura Bibliotheca Publishing House, Targoviste, 2007, p. 24

Conclusions

Ethics is a hard lesson, and it can even be considered a brake on the development of a company, but I think it is more than necessary for long-term success. Respect for ethical principles should not be relative, because the widespread interpretation of these principles can easily bring unwanted consequences. That is why most ethical codes are clear, transparent and easy to understand, without leaving an unequivocal trace. "Ethics requires ongoing effort to study the personal moral beliefs, moral behaviour and ensures that institutions represent a guide for setting standards and solid rational cohabitation." [2]. For long-term development and a fair relationship to employees or clients, a company needs the puzzle piece called ethics.

Even if the consequences of non-compliance with the Code of Ethics do not occur shortly after the action has taken place, it is good for a sustainable development to have a committed ethical code within any company and each of those who assume it to be their own supervisor of adherence to principles. Beyond the formal and necessary aspect of an ethics committee in the company, ethical values are important developmental elements that need to be applied individually.

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