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EBS REVIEW

BUSINESS ETHICS IN A MODERN SOCIETY

Who Is Responsible for Globalisation?

Social Responsibility in a Shifting Industry

The Necessity of Ethics

Co-operation and Trust in Business

Business Ethics and Financial Performance

Towards the Ethical Organisation

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Computer Ethics

ESTONIAN BUSINESS SCHOOL

EBS REVIEW

Contents

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Dear Reader

This is the 12th issue of EBS Review. As you can see, it is somehow different from the previous ones, with a changed layout and new concept. Estonian Business School is innovative and its rapid movement and development also required changes to the character of this journal. From now on it will have a simpler and more academic appearance.

This issue is about ethics, ethics in business, ethics in society, responsibility...
In this *business ethics* issue the authors fall into two main categories. First, there are articles by our friends and partners from universities in other countries. Secondly our own masters and bachelors, who have chosen business ethics out of interest and as the topic of their final thesis at EBS, have a chance to introduce themselves and their work.

Each article has a different approach, but all of them stress the importance of ethics in business. It is all about people and their ability to adapt. Despite the technological revolution we have to admit that employees are still the most valuable assets and their fair treatment is an opportunity to motivate them better and to exploit their resource more effectively. Employees, their knowledge, skill and ability to use their assets play the most significant role in a company's success.

Ethics are about values, ideals and aspirations. Ethical businesses may not always live up to their ideals, but they are clear about their intent. Ethics are either central to the way a company functions, or they are not. The executives and managers either lead the way, or they communicate that cutting corners, deception and disrespect are acceptable.

Ethics is about the quality of our lives, the quality of our service, and ultimately, about the bottom line. Treating employees, customers, vendors and the public in an ethical, fair and open way is not only the right thing, in the long run, it's the only way to stay in business.

Quite often ethical behaviour increases the costs and makes competing on the market more complicated, but here, with these articles we try to show that ethics is good business and it can be/ is in the long-run profitable for the company.

Hopefully you'll find these articles an interesting and useful source of valuable new information and inspiration.

We would like to thank all those who have written for this issue and taken part in the process of preparing EBS Review No. 12.

On behalf of the Editorial Board of EBS Review

Mari Kooskora
Editor-in-Chief, EBS Review.

Towards the Ethical Organisation

Alan Kitson, *Bolton Business School*

Introduction

How can it be known, either by organisational members or by external others, that a particular organisation is ethical? Given the enormous size and complexity of some business organisations, to what extent does it make any kind of sense to ask the question? How are the claims of an increasing number of businesses seeking to establish themselves as ethical in the minds of customers and others to be assessed?

The search for the characteristics of ethical organisations can be based on three different approaches. These approaches are not mutually exclusive. Each of them offers useful insights. First, there is that approach which stems from a desire to build a model or theory of corporate moral excellence from a basis of first principles. Second, there is the approach which is based on stakeholder theory. Third, there is the approach which stems from a concern about issues of corporate governance.

This paper examines each approach and outlines an emergent paradigm which draws its dynamic from seeking to build upon them to create a more holistic model.

Theories of Corporate Moral Excellence

The notion of corporate or organisational culture is well established in the field of organisation theory and behaviour. Although there are some significant divergences of view about the features and origins of corporate culture, there is widespread agreement amongst analysts that organisational culture significantly affects behaviour in organisations. Fundamental to any corporate culture are the values which are embedded within the corporation. Deal and Kennedy (1982) express this view forcefully when they write - "Values are the bedrock of any corporate culture." They assert that values produce a sense of direction for employees and help to guide and control their day to day behaviour.

Michael Hoffman (1986) builds upon the concept of corporate culture in order to develop a powerful theory of corporate moral excellence. Hoffman holds the view that corporate culture has three main elements. First, there are the basic values, attitudes and beliefs of the organisation. Second, there are the organisational goals, policies, structures and strategies which are shaped by those basic values, attitudes and beliefs. Third, there is the organisational "way of doing things". These are the everyday, accepted, unchallenged processes and procedures. Almost hidden from view within these everyday forms of behaviour are the basic values, attitudes and beliefs of the organisation.

However, Hoffman asserts that within organisations it is individuals who are responsible for creating goals, criticising and evaluating the corporate culture and instigating and implementing change. He states that the morally excellent corporation is one that discovers the healthy reciprocity between its culture and the autonomy of its individuals. This reciprocity is a necessary but not a sufficient condition for corporate moral excellence. It is also necessary for the corporate culture to be a moral corporate culture.

This means that the espoused values and values in practice should be ethically acceptable. Although not directly concerned with issues of business ethics, the work of Peters and Waterman (1982) supports this view. They studied successful companies which had achieved excellence in their fields and concluded that, amongst other characteristics, excellent companies were clear on what they stood for and took the process of value shaping very seriously. They doubted whether it was possible to be an excellent company without clarity on values and without having the right sort of values.

Morally excellent organisations, therefore, have, according to Hoffman and Peters and Waterman, cultures based on ethical values.

How can an organisation ensure that its ethical values are reflected in its corporate culture? How can it ensure that its basic ethical beliefs are reflected and carried through in its goals, policies, structures and strategies and in its everyday behaviour?

Goodpaster (1983) offers an approach based on four steps. First, there is the need to look for ethical issues or situations which raise ethical questions. Second, rational principles are applied to produce ethical strategies and procedures. Third, there is a need to coordinate the ethical strategies and procedures with other demands, interests and constraints. Fourth, there is the implementation of the agreed ethical strategies and procedures. This produces action or "good deeds" and involves integration within the everyday way of doing things in the organisation. However, Goodpaster takes the view that such an approach could be dangerous to individual moral autonomy if it takes place within a corporate culture which is too strong or prescriptive. Excellent organisations are driven by a few key values and give space to individuals to use their initiative to support those values.

Morally excellent organisations, according to the approach exemplified by Hoffman and Goodpaster, are characterised by ethical values and clarity about those values. They also have good communications systems to aid the process of clarification and implementation, room for rational disagreement and protest, avenues of withdrawal for anti-pathetic individuals and minimised bureaucracy and control.

Ethics and Stakeholder Theory

A different approach to the problem of defining and developing ethical behaviour in organisations is provided by stakeholder theory. According to this approach, paying attention to the needs and rights of all the stakeholders of a business is a useful way of developing ethically responsible behaviour by managers. An ethical organisation is seen as one in which obligations to stakeholders figure prominently in the decision-making of managers within the organisation.

Stakeholder theory has a long tradition. John Donaldson (1992) writes that the term "stakeholder" was created by Robert K Merton in the 1950's and has enjoyed a vogue in recent years. Goodpaster, on the other hand, states that the term appears to have been invented in the early 1960's as a deliberate play on the word "stockholder", which is the American equivalent of the British "shareholder".

The Stanford Research Institute, in 1963, defined the stakeholder concept as those groups without whose support an organisation would cease to exist. Its list of stakeholders originally included shareowners, employees, customers, suppliers, lenders and society. It was argued that unless business executives understood the needs and concerns of these stakeholder groups, they would be unable to secure the support necessary for the continued survival of the firm. Freeman (1984) widens the definition to "any group or individual who can affect or is affected by the achievement of the organisation's objectives".

Company law in Britain enshrines the view (challenged by the publication of Tomorrow's Company in 1995 by the Royal Society of Arts) that the interests of shareholders of public companies take precedence over any other interests in the company. Companies are managed by those appointed by the Board of Directors who are themselves elected by shareholders to ensure that shareholders enjoy the largest possible return on their investment. The managers act as agents for the shareholders who are their principals. Of course, this bald assertion is not always the reality, as James Burnham reminds us in his work on "the managerial revolution" and there have been many examples of Boards of Directors being taken to task by shareholders when they appear to have prioritised interests other than those of the shareholders.

Stakeholder theory is an attempt to broaden the perception that there is one dominant interest - that of the shareholder - in public companies.

In challenging the predominant view, as enshrined in the legal codes of many societies, that the interests of shareholders have primacy, stakeholder theory introduces the notion that there are a variety of stakeholders in any business. The decisions of managers and Boards of Directors have an impact on many different groups, communities and individuals. Stakeholder theory asserts that companies have responsibilities and obligations beyond those to the shareholders.

But what kind of responsibility do organisations have to their stakeholders? Hosmer (1991) identifies five levels of managerial responsibilities. They are ethical, conceptual, technical, functional and operational. Ethical responsibilities include the distribution of benefits and the allocation of costs or harms created by the firm. Hosmer argues that if these functions are performed well the benefits and harms will be distributed in a way which stakeholders will see as right, proper and just. Ethical principles should be used to distribute benefits and allocate costs or harms so these decisions will be seen by stakeholders as ethical. They will be more acceptable to stakeholders and ensure the continuing support of stakeholders.

However, there are significant differences within the tradition of stakeholder theory. The major differences revolve around the question - How far do the responsibilities of companies extend? Raven (1994) draws a distinction between a narrow definition of stakeholders and a wider definition. The narrow definition would include the following groups as stakeholders - employees, shareholders, customers, suppliers, creditors and the local community. The wider definition would add the following - social activists, public interest groups, trade associations, local government, international organisations and society in general. Some approaches include "competitors" and others "the environment" as stakeholders.

Stakeholder theory presents managers in business and other organisations with a significant challenge. Managing a business knowing that your primary responsibility is to the shareholders may not be easy, but at least it is likely to be a much less complex task than managing a business within the context of multiple claims from multiple stakeholders.

As Goodpaster argues, managers may carry out an analysis of stakeholder reactions to decisions for reasons which have little to do with ethics. They might be concerned that stakeholder reaction could impede the achievement of strategic objectives and that the effects of decisions on relatively powerless stakeholders might be ignored or discounted. Expanding the list of stakeholders who are taken into account may be a form of enlightened self-interest but it is not necessarily a way of introducing ethical values into business decision-making.

The solution to this problem, for Goodpaster, lies in the argument that principals cannot expect of their agents, behaviour that would be inconsistent with the reasonable ethical expectations of the community. The ethical challenges faced by managers are the same as those faced by other people. Goodpaster states " The foundation of ethics in management lies in understanding that the conscience of the corporation is a logical and moral extension of the consciences of its principals. It is not an expansion of the list of principals..." Stakeholder analysis may assist managers in their strategic planning but it will not, of itself, introduce ethical considerations into their decision-making.

Ethics and Corporate Governance

Theories of corporate governance offer a further perspective on the characteristics of the ethical organisation. In his book "Management and Machiavelli" (1967), Anthony Jay draws a parallel between the large, modern public corporation and the independent or semi-independent states of the past. He felt that theories of government offered a way of fully understanding the behaviour of these large corporations. For Jay, management can only be properly studied as a branch of government.

Theories of government make use of concepts such as accountability, authority, power, consent, responsibility, policy making and administration. They are concerned with producing guidance about the best forms of government and the appropriateness of procedures of decision making and execution. Classical theories of management (see e.g. Brech,1953) saw management as a process incorporating planning, control, organisation, delegation, responsibility and authority and accountability. They were concerned with improving the management of the modern large corporation and drew heavily on concepts developed in the study of government.

The connection between ethical behaviour and political or governmental processes are well established in the field of political philosophy. Aristotle, for example, saw a close link between his ethical theory and his political theory. He begins his discussion of ethics with the statement that every craft and every enquiry, and similarly every action and project seems to aim at some good. He concludes that the good has been well defined as that at which everything aims. His discussion of ethics is followed by his treatment of politics. According to MacIntyre (1967), "The Ethics shows us what forms and style of life are necessary for happiness, the Politics what particular form of constitution, what set of institutions, are necessary to make this form of life possible and to safeguard it."

Theories of government applied to the large corporation can be expected, therefore, to be closely linked to a concern about ethical behaviour. Such theories tend to be labelled as theories of corporate governance. The use of the word "governance" is partly based on fad or fashion but it emphasises the focus on the "act, manner, function of government." (Pocket Oxford Dictionary)

Much of the literature on corporate governance is a response to problems of compliance, by businesses, with their obligations to their shareholders. Cannon (1992), for example, defines corporate governance as:

"...the sum of those activities which make up the internal regulation of the business in compliance with the obligations placed on the firm by legislation, ownership and control. It incorporates the trusteeship of assets, their management and their deployment."

This perspective on corporate governance sees senior managers as accountable to the owners of the business regarding the use of the firm's assets. The managers are stewards or trustees acting as agents on behalf of the owners of the assets. Cannon draws attention to the relationship between the poor performance of several large corporations and the increasing clamour during the late 1980's, and into the 1990's, from shareholders who wished to be able to exert more control over those with responsibility for managing their companies.

This approach is based on pursuing the self-interest of the owners of the business. They are concerned with protecting their investment and enhancing their income levels from share dividends. If their managers had performed well - in the sense of ensuring at least stable levels of income for shareholders - then concerns about corporate governance issues would be less likely to be raised.

This does not seem to be a very promising basis for the development of an ethical organisation. The argument is that changing the style and methods of corporate governance is justifiable because it will result in enhanced income for shareholders and that, therefore, one ought to be concerned about corporate governance and try to produce models of corporate governance reflecting this justification. Such an approach might produce ethical behaviour, or at least encourage it, but not intentionally. The intention is to produce enhanced income for shareholders through enhanced corporate performance.

A second perspective on corporate governance derives from a concern with the excessive pay increases which directors have received in the 1990's, the perks and conditions of senior executives, the golden handshakes received by executives leaving their organisations and the inadequacies of financial reporting systems.

Theories of corporate governance focus attention on the policy and decision making structures of large companies. They stem from a concern for the rights of shareholders and place responsibilities on directors and senior executives. They emphasise the need for openness in decision making and for a clear demonstration that the company is being governed in accordance with perceived business virtues

If an organisation follows the requirements of a code of best practice in relation to corporate governance, is it likely to be an ethical organisation? A board of a company in the UK may decide to fully follow the Cadbury Committee's recommendations but it does not follow that the company is an ethical organisation. It may still produce shoddy or dangerous goods, pollute the environment, impose adverse conditions on its workforce or tell lies in its advertising. However, the following of a code such as that found in the Cadbury report is more likely than not to lead to a corporate governance regime with greater openness of information, less likelihood of domination by a single person or small group and fewer excesses in the remuneration packages for senior executives.

A Holistic Paradigm

Each of the three major perspectives outlined above can be compared with the others on the basis of three elements. These are values, structures and processes.
This comparison is represented in the table on the next page.

In relation to values, there is no fundamental conflict between the three approaches. The "moral excellence approach does not, per se, identify what values lead to moral excellence. It stipulates that the values of organisations should be clear, that they must be ethical and that the culture based on those values should not oppress organisational members but should recognise the importance of the autonomy of moral actors. The ethicality or otherwise of such values (or the content of such values) is a judgement which can be based only on the busi-

PRIVATE	EXCELLENCE	STAKEHOLDER	GOVERNANCE
VALUES	clarity of values values must be "ethical"	values not important except commitment to satisfy needs of stakeholders	avoidance of state control business virtues
	culture not too strong, autonomy important		openness, honesty, compliance
STRUCTURE	need for committees, hotlines, etc.	neutral management;	Board of Directors need checks and balances
	specifically aimed at reinforcing ethical statements/codes/ mission.	representative structure for stakeholders	separation of powers role of non-executive director
TYPICAL PROCESS	ethical audits	strategic planning emphasis/focus	focus on reporting especially financial reporting
	production of "code"		
	revise systems to orient towards ethical behaviour		

ness community's values, or business virtues. The values regarded as important by the "corporate governance" approach are derived from a view of the everyday business virtues which make business life possible. These include openness and honesty in dealings and compliance with what is regarded, within the business community, as good business practice. The "stakeholder" approach places value on the satisfaction of the needs of a range of stakeholders. By implication, the managers of organisations should reflect values such as fairness, equity, openness and honesty.

Each approach has something to say about organisational structure. The "Moral excellence" approaches identify the need for structures to be created which reinforce the organisations values as expressed in its mission statement, code of ethics or other ethical statement. The "stakeholder" approach specifies the need for structures which are representative of the different stakeholders. The "corporate governance" approaches emphasise the need for internal checks and balances so that power does not become concentrated and the need for the "general interest" to be represented effectively through non-executive directors.

In relation to processes, the "moral excellence" approach identifies the need for ethical audits, the production of codes of ethics/conduct and the need for reward systems to be oriented towards encouraging ethical behaviour. The "stakeholder" perspective emphasises the strategic planning process as central to the ethicality and success of the organisation. A strategic planning process which does not incorporate the needs/views of the various stakeholders is likely to be unsuccessful and could be unethically dominated by one group pushing its own interests to the detriment of others. The "corporate governance" approach focuses on reporting processes, particularly financial reporting and its truthfulness.

There are, at least, two possible conceptualisations of the relationship between values, process and structure which can be derived from an examination of the three approaches. The first is a concentric circles approach and the second is a differential overlap approach.

The concentric circle approach (see next page) implies that values are central to any ethical organisation. Indeed, some would argue (see Campbell and Tawadey (1992)) that values are central to any organisation. Values are articulated and implemented through processes which require an organisational structure for their delivery.

The differential overlap approach, (see next page), again places values at the organisational centre, but implies that not all organisational structures and processes are driven by organisational values. Some

Diagram 1

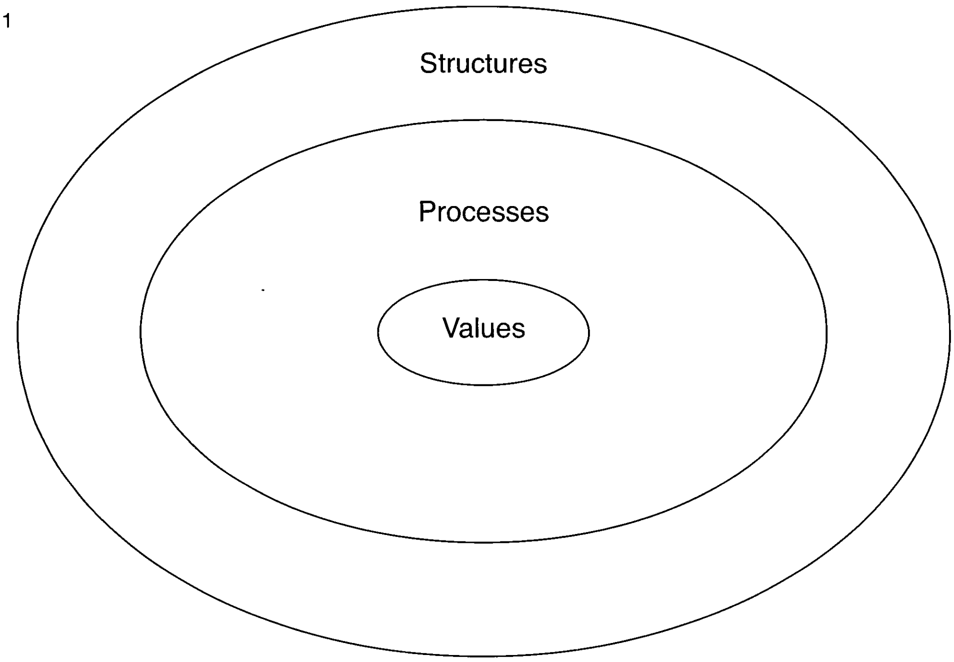
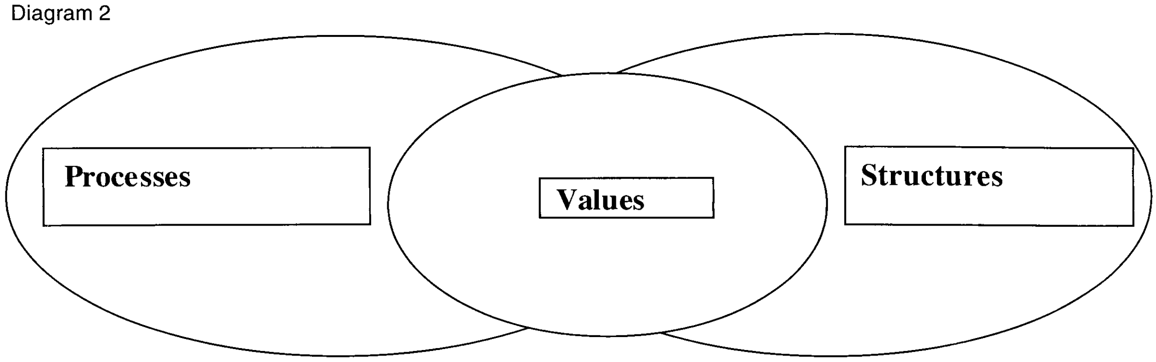


Diagram 2



processes and structures may exist for reasons other than the consummation of the organisation's central values.

The Ethical Organisation

What does this examination of the three perspectives tell us about the possible characteristics of ethical organisations?

The concentric circles approach implies that an ethical organisation is one in which there is an almost perfect match between the organisations values, its internal processes and structures. Organisations wishing to become ethical would need, in accordance with this model to clarify their values, ensure that their values change to ethical ones if necessary and implement a thorough review of their internal processes and structures. Changes in environmental factors or internal changes such as a change in leadership or the opening up of new centres of operation or mergers and acquisitions, would require the exercise to be done again, and again and again.

An organisation which tried to develop itself on the basis of utilising organising concepts from more than one of the three perspectives outlined above may find itself in some difficulties. Each of the three approaches suggests a different pathway to the ethical holy grail.

The differential overlap model offers a more realistic scenario. The centrality of values is accepted. However, the need for absolute clarity is less pressing and, to some extent, there can be a borrowing from each perspective, or the importation of aspects of the other two into a dominant perspective. The extent to which organisations derive their values from a variety of perspectives is an empirical one worthy of further research. But it seems to be intuitively plausible to argue that many (if not all) organisations of a certain size do in fact take an eclectic attitude to value sources.

Value change, from whatever source, can be more readily adopted within organisations which do not feel the need for root and branch change every time there is a (significant) change in values. This is more likely to be possible in organisations which do not attempt to ensure that all of their processes and structures are derived undimensionally from a clear value statement.

However, even if values are not totally clear, it must be the case, for an ethical organisation, that significant features of organisational processes and structures are shaped by the particular value set of the organisation. Absolute clarity may not be desirable or possible. Some organisations will find it easier than others to ensure a total reflection of a clear set of values within their structures and processes. Such organisations may be less able to respond readily to change. They may also have a tendency to veer towards some kind of moral absolutism. Those organisations which adopt a more pluralist approach may be less able to define their values clearly, may have elements of their processes and structures which are not much influenced by a concern for ethical values and may be more susceptible to accusations of unethical conduct. But an incremental, less driven approach may be more likely to produce an organisation with greater flexibility, more willingness to change practice, less convinced about its own moral superiority and more willing to admit mistakes when they happen.

Dimensions of Ethicality

Through an examination of the three perspectives and an acceptance that the differential overlap model is likely to be more consonant with reality than the concentric circles model, it is possible to draw up a set of dimensions along which to place the degree of ethicality of organisations.

These dimensions might be along the following lines.

An organisation might be ethical if it:

- wants to be ethical, preferably, but not necessarily, for non-instrumental reasons;
- is as clear as possible about its values, without an unquestioning acceptance of them;
- has a culture which reflects these values, without being so dominant as to stifle dissent;
- has processes which reflect its values, but is ready to change them as circumstances change;
- takes into account the needs/views of stakeholders in its strategic thinking, without simply trading off one stakeholders need/view against those of another;
- fully, accurately and honestly reports on its activities in ways suited to the needs of its different stakeholders;
- has internal checks on power so that too much power is not accumulated into the hands of a single person or small group;
- has a fair system of remuneration and division of the spoils of success.

Each organisation needs to refine these characteristics further for its own purposes. For some organisations, at a particular time in their history and with a particular conjunction of circumstances, some of these characteristics will be more important than others. This approach to identifying ethical organisations is not very far from that used by the judges in Business Ethics Magazine's report (November/December 1995 issue), on its search for ethical corporations in the USA. All three winners were said to demonstrate a commitment to ethics and social responsibility, integrity and fairness, concrete beneficial outcomes from an ethical approach, steadfastness in remaining ethical during difficulties. Each winner individually excelled at either implementing an on-going ethics programme, or environmentalism, or community involvement, or employee relations or diversity. This was not a search for perfection. As Dale Kurschner put it, "Every company, just like every individual, has character flaws. It's how we deal with them that reveals our values."

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Business Ethics in a Modern Society[1]

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The topic of my paper, Corporate Ethics in a Modern Society‘ is very comprehensive. I can, therefore, give here only a rough outline. Most of it must remain unsaid, or is only referred to as a prerequisite of the argument. The term, 'corporate ethics' itself would require long conceptual definitions in order to answer the question whether or not we can give this word a meaning relevant for our practical life, and this especially with respect to the economic system.

To begin with: 'Ethics' has to be distinguished from 'morality'. Morality is generally understood to refer to normative rules actually practised in life, as e. g. in 'business morals'. 'Ethics', on the other hand, relates to the process of critical reflection on existing morals in order to clarify whether they are right in the sense of being justifiably acceptable; ethics is directed towards the *improvement* of the status quo. Corporate ethics, then, does refer to right conduct in business and thus directly to the objective function of the corporation.

A second point should be mentioned at the beginning, namely that an enterprise in an entity characterized by a high division of labour which makes it necessary and at the same time difficult to continuously bring about and maintain a unity of action. Under the condition of high uncertainty and complexity in the internal and external environment of the corporation this cannot be achieved (only) via organizational rules. Such rules would be much too rigid, inflexible and selective. What does come here into play is what is called *'Corporate Culture'*.
This word refers to commonly shared values which direct the actions of the employees towards the common purpose of the enterprise, and this without fixing the role structures too rigidly. Corporate culture, understood as the totality of existing and practised values, forms the *moral basis* of all corporate activities. The important point here is that corporate ethics is not only to be understood as a critical corrective of corporate culture, but simultaneously has to make use of it, in order to become effective within a structure characterized by a high degree of division of labour. Implementing corporate ethics must deal with this peculiar tension between what 'are' and what 'should be' the values governing the corporation and its management process. Management must try to respond to this tension by applying reforms appropriate to the situation.

Some Examples

Before I start I should point out that the topic I am dealing with is not primarily of a theoretical nature, invented in the ivory tower of science. To illustrate this point I will refer to several practical initiatives.

Firstly, I will remind you of the call UN General Secretary Kofi Annan made at the World Economic Forum 1999 in Davos, asking the major business leaders of the world to co-operate with his organisation in achieving 3 things: 1. The enforcement of human rights; 2. The enforcement of social standards developed by the ILO (International Labour Organisation), e. g. no child labour, no forced labour, and free activities of labour unions, and 3. Protection of the environment (Annan). This is one of the aforementioned initiatives at the highest political level.

Furthermore I remind you of the *World Business Council for Sustainable Development* which was founded in 1992 by more than 120 private enterprises from various countries to help the idea of 'Social Responsibility of Management' succeed. Corporate ethics is the core of this idea. Two sentences from the mission statement of this group seem important to me, since they reflect somehow my own philosophy (see world Business Council for Sustainable Development).

The first states: current changes in what societies expect from business today are directed more towards ethical and responsible action, as a service in return for the freedom and the opportunities granted by society to enterprises.

And the second: in order for an enterprise to achieve the long term maximum value for its shareholders it is necessary to apply values that are established in consensus with society. In this second statement

[1] Slightly revised version of a lecture, given at the 5th Vienna Culture Congress in November 1999. The style of presentation was kept. Literature references were added.

'Shareholder-Value' and 'Stakeholder-Value' are not only seen in an interdependent context. At the same time, and equally important, social consensus, as a prerequisite for success in business, is strongly emphasised.

Thirdly I remind you of the private initiative of the *Council on Economic Priorities* which was founded in 1968. It has promoted the well known, *Social Accountability Standards SA 8000. 'A Global Standard for Ethical Sourcing'* (Council on Economic Priorities, 1997) .

In co-operation with all affiliated enterprises, efforts are made, particularly in developing countries, to apply the following criteria for sourcing: no child labour, no forced labour, free labour unions, no discrimination against race, gender, etc. Quite a number of enterprises have joined this initiative, among others the 'Otto Versand' Hamburg. These companies have chosen their suppliers according to ethical standards mentioned above; and they check from time to time whether these standards are actually applied in everyday business life.

Another practical example of corporate ethics exists within the chemical industry. As a consequence of the Bophal tragedy in India the program *'Responsible Care'* was started 15 years ago (Meister, et al, 1998). A worldwide Ethics-Management-System was created in order that all affiliated enterprises focus on protection of the environment, safety at the workplace and protection of those living in the neighbourhood of manufacturing companies.

Furthermore, the Bavarian construction industry should be mentioned. Two years ago it created an Ethics-Managemnt-System and an Ethics-Auditing-System to combat corruption. Finally I should draw your attention to the annual report 1998 of Shell Deutschland, published under the title: 'Profits and Ethical Principles – a Contradiction?' In this report Shell makes clear its intention of pursuing three management goals in the future: to earn profits for its shareholders, to help protecting the environment, and finally to act responsibly towards its employees. In future Shell will give equal account to these three goals ('triple bottom line') in every annual report.

From these cases it should be sufficiently clear that we are not talking about academic ideas but ones that have been more or less realised in business practice. What we have to think about now is, how these practices can be integrated into the capitalist economy and under conditions of competition in an meaningful way. I am going to talk about this later. But before doing this I would like to make some remarks concerning the background assumptions and prerequisites of my argument.

Background Assumptions

By now it should be clear that corporate ethics aims at a new understanding of responsibility of management in a capitalist market economy. This implies that it can be justified to demand more from management of private enterprises than to maximize profits. This is a well known topic both in economic theory and business administration; it has gained, however, new actuality today, and its importance will still increase in the future. This is especially due to the process of *globalization* and the threat that market processes will overwhelm the political processes of national legislature and threaten the primacy of politics. The important question which arises here is: What and where on a worldwide scale are the future loci of (political) responsibility to develop and protect the normative foundations of the world economy? Globalisation is, thus, one of the central current developments which give urgency to the topic of corporate ethics (Recently in more detail, Scherer, 2000).

Secondly, I have in mind what could be called the 'Limits of the Law', which has been brought to light by the increasing complexity of modern developments in economics and society. It is because of this complexity that efficient control of economic processes by the law is becoming more and more difficult (Stone, 1975). I shall show at the end of my paper how this leads to new form of co-operation between the state and the economy, which in turn becomes relevant for the issue of corporate ethics and the responsibility of management.

My third remark: We have to deal with our topic on the background of a so-called *post-traditional* society, a society where traditional values are not accepted unquestioned and where the 'Why Question' is asked and has to be answered by those who carry responsibility. Answering such 'Why Questions' aims at the *justification* of norms. How such a justification can be brought about will be dealt with in the philosophical part of my speech. Here I just underline that in my view corporate ethics should be understood as an 'Ethics of Reason'; and this means: the enterprise, its management, must be prepared to give convincing reasons to those who ask questions and whose existence is or may be affected by corporate strategies. How, then, can management provide such justification when necessary?

The fourth introductory remark. I think, when I use the term 'responsibility' it refers to the question of how management and managers have made use of the entrepreneurial freedom granted to them by law: Answer why you made use of *entrepreneurial freedom* in this way and not in another! Freedom and responsibility (for the common good) are inseperately intertwined.

Therefore one of the most important background assumptions of my argument is that we cannot start with the idea of freedom alone as is often done in public statements. Instead, we must keep in mind from the very beginning that the motto 'Freedom *and* Unity' (or 'Freedom *and* Responsibility') is of crucial importance as opposed to the neo-liberal credo 'Freedom or Unity' (in former years a slogan in political rhetorics in Germany was: 'Freedom *or* Socialism'). Only then we can hope to link individual freedom with the 'public interest', in view of the insight that the *arbitrariness* of values cannot bring about this unity.

What is finally at stake here is how we can gain a sufficiently correct understanding of our economic system and its achievements. Without giving specific reasons let me just state that arguments to this question should be considered *relative* in the sense that we look back and compare our *historical* experiences with different economic systems instead of referring to *absolute* concepts resulting from economic reasoning based on unrealistic assumption in the form of 'as-if'-models.

Comparing the history of economic systems we can not only reject on good grounds any request for *revolutionary* changes of our market based system; what is equally important is that we can search for *evolutionary* improvements of the status quo. It is in this tradition of 'piece-meal-engineering' (Popper) that I shall argue lateron for a double responsibility of management in a market economy: (1) the *economic* responsibility to make profits with the ultimate aim to assure the survival of the enterprise under competitive conditions; and (2) the *moral* responsibility which focuses on the question with what means (strategies) profits are realized. Are they ethically justifiable? The answer to this question is, of course, the central matter of my lecture.

Philosophlcal Foundation

In the third part of my presentation which deals with the philosophical foundations of my subject, I will enter a discipline where I am not an expert. However, I hope the two or three thoughts I am going to present are not too false.

Let me first of all mention one basic methodological problem, which relates to the correct beginning of the argument ('initial problem'). (The following expositions are specially based on Kambartel`s considerations. Ref. to lecture of Kambartel, 1998). How could and should one start to reason for an ethical request in a methodologically correct manner? If I raise a moral challenge in a post-traditional society, the 'Why-Question' will be asked: Why should I agree with what you propose? To answer this question I have to come up with another sentence which can justify the challenge in the specific sense that it follows logically (by deductive reasoning) form the first sentence. As a next step the opponent can request to justify the second sentence, and so on. Proponent and opponent are thus moving towards a so called 'infinite regress' (regressus ad infinitum) which forces us to stop the process somewhere. To avoid a circular argument a highest value has to be determined *dogmatically:* No further 'Why-Questions' are allowed!

Because of this difficulty of deductive reasoning (and because the sentence holds that from nothing nothing does follow) I suggest not to start *'from above'* with highest values,. taken e. g. from holy books, but instead *'from below',* i. e. from within the lifeworld (praxis), and this in the specific sense that we draw on our *common practical experience* for *successful* coordination of actions. In reflecting on such long standing and successful practical experience (level of pragmatics) we can construct first categorical differences on the level of language (level of semantics); we can e. g. distinguish (intentional) *'action'* from (stimulated) *'behavior'.* Starting from here we can than argue e. g. for the epistemological foundations of 'Business Administration' which has to be constructed as a 'theory of action' (Handlungstheorie) and not as a (positivistic) behavioral science (Verhaltenstheorie) so famous in the USA. It can only be mentioned here that this approach does not include a 'naturalistic fallacy' in the sense that we deduct the 'Ought' from what 'Is'; what we reconstruct (as a basis for first orientations of theoretical efforts) is the *praxis* of successful life experience from an participator perspective, and has nothing to do with testing a 'hypothesis' for *empirical regularities* from the *observer perspective* of theoretical reasoning.

Coming back to our subject of corporate ethics we can distinguish from practical experience *peaceful* conflict resolutions as opposed to the use of 'power'. Conflicts (of interests) is the central phenomenon that we encounter in our life world (and especially in the realm of the economy). The (practical) necessity of finding a peaceful way of resolving conflicts results from the *critically reflected* experience which is that peace makes the common life *more stable* than the use of power of any kind. Solutions brought about through power are – according to our experience – notoriously *unstable;* any change in the balance of power leads to new conflicts. However, if we understand the notion of 'peace' – resulting from a reconstruction of our pragmatic routines of conflict resolution – as a rational category (i. e. based on reasoning), namely as a *general free consensus resulting from argumentation* (Lorenzen, 1987) - then there will be a better chance for a stable co-existence of human beings, at least in principle and if we legitimize the use of power via a general free consensus.

The notion of peace embraces the difference between *'consensus,'* based on argumentation, and *'compromise,'* based on the use of power in its different forms. Argumentation is a dialogical process (of presenting and scrutinzing reasons) which is directed towards a consensual solution of conflicts (about questions of truth or justice), and this on the basis of a common *insight (Einsicht)* in good grounds resulting from dialogue. And *insight,* I mean the word 'insight', is of crucial importance here, for has a special property: insight *happens* to us in the sense that it cannot be brought about or 'created' by manipulative or strategic action of others. In cases where we argue – if things go well – all of a sudden an argument is convincing and – acting honestly as a partner of the dialogue – we cannot reject it if we do not have ourselves a better argument. This *'forceless force of the better argument'* (Habermas) brings about our insight, and this causes us to say: yes, that is convincing, we agree (whether or not actions will follow from this consensus, is, of course, a different story). Note, that to agree in this sense has nothing to do with arbitrariness. Quite the opposite: argumentation and insight form the 'rational core' of the consensus reached; and it can be called 'free' because the dialogue is by definition characterized by the absence of any form of power.

The proposition to define peace as 'general free consensus' unites indeed freedom with unity as postulated above. The word 'general' points to *'unity'* of society, and the word 'free' in the elaborated sense points to *'freedom'* of the individual. Peace in this sense is more than the absence of war in the sense of 'co-existence'; it is a *positive* state of affairs characterized by the mutual acceptance of *pluralistic* forms of life within or between societies. Of course, peace is a cultural achievement and has to be brought about again and again, depending on changed circumstances which may cause new conflict situations. In a society where arguing is an integral part of a long standing cultural tradition, we can observe that peaceful as opposed to power-induced conflict resolutions are regarded as relevant for a *'good life.'* In such an environment corporate ethics (as ethics of reason and of peaceful conflict resolution) has a good chance of contributing effectively to peace in and between societies.

Consequences for Management: Double Responsibility for Profits and Peace

What are the consequences for management derived from this philosophical approach?
My first thesis is that peace is in the long term interest of the economy itself. This has been underscored in the quotation mentioned above which refers explicitly to the social consensus. Peace is in the (long term) interest of the economic system because in an environment of war between countries or within a nation among citizens (civil war) the economic process and the smooth co-ordination of plans and actions via the price-system will be obstructed or even made impossible. Peace, understood correctly, is in the self-interest of economic actors.

Current actual efforts towards a global harmonization of the normative foundations for the world economy as a whole confirm this point. Here one of the most important conflicts arise out of the question to what extent the rules of *free trade,* embedded in the World Trade Organisation (WTO), and the *social standards of work,* embedded mainly in the ILO, can be brought together. Developing countries argue: low social standards together with corresponding living conditions and forms of life, lead to competitive advantages of our countries. Developed countries insist: 'No, the present standards for workers are inhumane!' Here economics and ethics are in conflict, and as we know presently many efforts are being made for the (peaceful?) resolution of this problem. I believe that it is helpful for world peace that these efforts from 'above' must continue. The WTO should become the place where all these normative demands are brought together and a solution is worked out via a real dialogue. However, it was Kofi Annan who rightly requested that multinational enterprises should be part of this process. They should make serious efforts to contribute to building net of normative guidelines which are suited to stabilise peace worldwide. This would be an important manifestation of corporate ethics and I shall refer to it lateron.

Against this background my next proposition runs as follows: Doing business efficiently and *profit-oriented* is an indispensable contribution to peace. I justify this thesis – as indicated above – by comparing the market system with a planned economy. Experience has shown that planned economies tend to use resources in a comparatively inefficient way. The result is a notorious shortage of goods. And this in turn causes severe conflicts. Therefore, the statement that and how we organise our economy via the market (in order to better reduce and control) the complexity of the economic cosmos) is an important argument for the desired order of peace. But the private enterprise is a necessary and indispensable part of each market economy. And the management of a private enterprise must earn sufficient profits in order to live up to its responsibility to assure the survival of the corporation under competitive conditions. This responsibility cannot be delegated to any other authority; in case of illiquidity the corporation goes bankrupt.

This second proposal, however, will become relative through the third: responsibility for profits is (in our historical situation) a *necessary, but not sufficient condition* for legitimizing entrepreneurial freedom. This is so because for a peaceful conflict resolution the (possible) conflictarian *side effects* of corporate strategies cannot be neglected. As already mentioned these side effects may relate to the *environment, employees, customers or other stakeholders.* These side or external effects must be taken into account and provided for in the interest of peace. It was already mentioned that there are severe doubts that the law (as the original and first authority to assure peace in society) cannot successfully accomplish this task alone under conditions of complexity and uncertainty, e. g. by internalizing external effects. In this case those institutions who are prone to create conflicts through their activities must take on co-responsibility. It is then, indeed, reasonable to understand the licence to operate a private corporation not as being granted for an *unconditional* use of entrepreneurial freedom but as given under a *proviso,* namely that management contributes, where necessary, to a peaceful resolution of conflicts caused by its own corporate activities. This is what corporate ethics demands.

In order to illustrate my point of view and make it more concrete I will remind you of the well known Nesté case of the 1970ies. Nestlé sold breast milk substitutes in developing countries. Because of the specific situation in these countries (unhygienic conditions, low income of many households, ignorance about how to properly use the product) the problem of a responsible marketing for these products arose. After lengthy negotiations with various protest groups who tried to defend the interest of the ultimate consumers, and in close co-operation with the WHO (World Health Organizsation) a 'code of ethics' was formulated, the 'WHO International Code of Marketing of Breast-Milk Substitutes'. This code regulates in 11 articles the relevant aspects of the marketing strategy of producers worldwide. In this case Nestlé has taken responsibility through *self-commitment* for any side effects of its own strategy and has thus contributed (beyond the range of the profit motive) to the legitimacy of its own actions. In my understanding this is an example of what I mean by corporate ethics. (Ref. to Nestlé case in detail, Steinmann, 1988)

This example leads to my fourth point and is the basis for an important distinction. Corporate ethics can be *directly* effective in the context of one's own strategy or *indirectly* as a contribution to improving the legal framework for economic activities. Already Kofi Annan referred to this distinction in his address to the World Economic Forum in Davos. The direct contribution of corporate ethics to peace must rely on a dialogue with stakeholders because peace by definition can only come about via dialogue and insight. Robert Hass, CEO of Levi Strauss, has strongly emphasised this point in his now well known lecture at the New York Business Council in 1994 on corporate ethics. He stressed the necessity to solve fundamental conflicts with the stakeholders of his company via dialogue so that all relevant stakes can be clarified and, if necessary, taken into account (Haas, 1994).

Another example of conflict resolution through dialogue can be found in the history of VW. During a dramatic crisis in 1993/94 the dismissal of 30 000 employees was on the agenda. In this situation the worker's council and management worked together on finding an alternative to the dismissal policy. Through a bunch of measures such as lowering salaries (higher salaries were cut more than lower ones), through applying more flexible rules in the organisation of the production process etc. fixed costs could be cut sufficiently to remain competitive. The partners tried to work out through dialogue what they understood as a fair and acceptable *burden* for the different groups of employees and at the same time as a *reasonable entitlement* of each person. One quickly realizes that by avoiding mass dismissals a heavy burden on public spending could be avoided which was a direct substantial contribution to the common good or public interest. (For detailed explanation of this decision, Hartz, 1994)

Besides such a direct contribution to social peace within the context of corporate strategy, corporate ethics can also offer an *indirect* contribution to peace, namely through efforts in the *political field* to introduce necessary changes of the (soft) law.

That is possible and makes sense in two ways. On *one hand,* it is quite legitimate for entrepeneurs and managers to insist that there are fair rules of competition and of all other legal provisions which constitute the market economy, and that these rules are observed strictly. On the *other hand* we are concerned about the development of such rules and their effectiveness which neutralise undisireable side effects of economic activities in terms of conflict potential. As mentioned before, this second dimension of corporate ethics is today of utmost importance, especially against the background of globalisation. Without the cooperation of multinational enterprises, and without making use of the knowledge and expertise gathered there, proper world wide rules for conflict resolution will come about too late, or not at all. Therefore I welcome the global compact between the UN and leaders of important multinational enterprises proposed and created in Davos in 1999. Continuous interaction between the UN and the international business community and the work of a contact group may help to better solve the pressing conflicts.

Thus far I have conveyed some thoughts on corporate ethics and its *justification.* The question of how a concept for successfully implementing corporate ethics remains to be answered. I cannot go more deeply into this question here and now but can only mention the big alternatives discussed actually on an international scale. What is meant is the choice between an *'compliance approach'* and an *'integrity approach'* (L. Paine). For depiction of both *starting points* and their effects ref. to Steinmann, Olbrich, 1998) Both approaches give different answers on how organisation members and organisation structures can be sensitised towards corporate ethics.

The *compliance approach* counts on a set of rules which is developed centrally and enforced via appropriate sanctions. Employees will be stimulated by *external* incentives to comply with the rules. In contrast the *integrity approach* builds more on *intrinsic* motivation and appeals to the ability and reason of employees to recognise and highlight ethically problematic situations. 'Top-down' versus 'Bottom-up', these are the two contradicting management philosophies discussed and practised today. I think that the integrity approach is in principle the more efficient solution. However, as mentioned at the outset, while implementing corporate ethics we must not neglect the existing corporate culture to avoid idealistic and utopian solutions. In the end we will find ourselves going through a longer learning process to find the right solution for a specific enterprise. We should, nevertheless, not turn a deaf ear to Robert Haas. Based on his own experience with Levi Strauss he stated: 'You cannot force ethical conduct into an organization!' (Haas, 1994, 508) Strictly practising the compliance approach at Levi Strauss led to a bureaucratic organisation of the Ethics-Management-System. The consequence was a pile of regulations flowing down the organisation like a 'waterfall', regulations which were ignored by the managers and employees after all. The long term aim of ethics-management must therefore be to sensitise all members of the organisation step by step to those ethical problems which are typical for the corporation in question, and at the same time introduce a structure of participative leadership.

Corporate Ethics in Modern Society

I will now come to the last point of my exposition, which attempts to integrate corporate ethics into the larger framework of the economic and social order. My point is here that in law corporate ethics must become more and more an integrated part of our economic system, since control by law is facing its limits, as I have stated before. Today new form of interaction between the state and the economic system seem to me to be necessary to relieve and support the law. Occasionally the word *'cooperation'* is used to characterise these forms. Unfortunately, I cannot go too deeply into this very interesting subject.

An example for this philosophy of ,cooperative interaction' is the development of environmental protection policy in the Netherlands which was described as follows: 'Instead of using laws and regulations to force the reluctant economic system towards more environmentally friedly production methods, The Hague has been using voluntary agreements since the mid-eighties'. The spectrum of co-operative agreements between ministries and companies, associations and organisations ranges from the recycling of batteries, reduction of harmful substances in paints and emissions, to a more efficient consumption of energy through the building of wind power stations. In the Dutch consensus culture the so called 'conventions' are also negotiated directly between the various lobby groups. 'We are making the transition from a state of law to a state of contracts', 'Does Dippel from the Dutch Institute of Legislative teaching says'. (Roser, 1998) This means that the laws are complemented and supported by various institutional arrangements between the state and the economy. The policy for environmental protection within the European Union seeks similar regulations with associations and enterprises – similar to the 'Management-by-Objectives'-philosophy – wherein goals and time periods for achieving them are agreed upon. The means are optional. This reduces complexity from the point of view of the state and contributes thus to a higher efficiency of the law. Similar thoughts are the basis of the 'Professors-Proposal' for a new environmental law in Germany (Kloepfer).

Looking to the United States we can find corresponding developments concerning arrangements between the state and corporations in the fight against economic crime. For the first time in the history of the USA the state and the economic system is sitting in the same boat. That is at least the consequence of the so called 'US Sentencing Guidelines'. (Steinherr, et al, 1998) These regulations of the criminal law commit enterprises on a voluntary basis to fighting economic criminality. Companies can be granted considerable reductions in fines when they have taken appropriate measures to avoid criminal conduct on their premises. Part of these precautions is fist of all the instalment of a high ranking 'Ethics Officer' who is responsible for all matters relating to 'Ethics-Management'. Second, a 'Code of Ethics' containing all principles for fighting economic criminality is necessary.

Furthermore the selection of suitable employees and their training is these principles is important. In total, the law provides 7 measures which are considered adequate to prevent criminal conduct within organisations and enterprises. They resemble somewhat the 'compliance approach'. Obviously the whole management system is involved, even to the point of co-operation with the investigative authorities, when criminal conduct is suspected. To get these new regulations off the ground, the state offers special economic incentives – which may run up to very substantial reduction in fines; this kind of incentive makes this new modus of co-operation stand out. Companies who decide for this type of co-operation are indeed in one boat with the state. They are not only no longer adversaries in court (defendant and judge), but they are co-operating in the (public) task of fighting to prevent economic crime.

In conclusion I will say that I do indeed believe in the emergence of new forms of co-operation between the state and the economic system, sharing the responsibility for social peace in partnership. As the few examples have indicated, corporate ethics can have a meaningful place within such a new order.

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Who is Responsible for Globalization?

Problems of the assumption of responsibllity in the face of globalization

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Abstract: *'Responsibility' is a notion which can often be heard in discussions of business ethics. The same is true for 'globalization'. Can these terms be combined in a meaningful way that would improve our way of dealing with actual problems?*
In order to answer this question the following paper will attempt to clarify the notions of globalization as well as responsibility. The focus will be the European view of the subject. Moral and ethical problems of globalization are explored with the aid of a concept of responsibility based on communication, which will render it possible to perceive the problems of globalization under the perspective of responsibility. The property of reflexivity of responsibility is emphasized and it is demonstrated that responsibility for globalization has to be assumed - even if the decision is **not** *to assume responsibility.*

Globallzatlon

In order to talk about responsibility for globalization the terms must first be well defined. Thus it could be said that the first responsibility for globalization consists of determining what the notions describe since the ethical implications obviously hinge on the meaning or definition of globalization. This task, however, is not quite as simple as it may appear at first. Even though the term globalization is used in a multitude of debates and it has achieved a certain ubiquity in most social sciences, one has serious difficulties in finding a common denominator in the multitude of its uses. Amazingly enough, there are a number of serious scholars who doubt that there even is such a thing as globalization at all or, if there is, that it is a new phenomenon. In this first chapter I consider a few possible definitions of globalization and some of the problems which arise from them. The description will necessarily remain incomplete, something which, as will be shown later, is one of the main challenges to the attempt to ascribe responsibility for globalization.

"The term "globalization" is frequently used among economists, politicians and policy makers when describing the increasing interdependence of countries. This process has several components including a cultural dimension." (Kyloh 1999, 1.)

It is important to note that the term globalization goes far beyond economic problems. That is also a reason why ethical problems are more complex in questions of globalization than in many other merely economic contexts (where they still tend to be sufficiently complicated). The center of most thoughts about globalization, however, is its economic aspect. Economic globalization, in turn, has many aspects.

The most important ones are the international financial markets, the international division of labor, worldwide direct investments, and the possibility of instantaneously obtaining and transferring information all over the world, which is facilitated by new technology. (Schröder 1997, 30f.)

"Globalization is characterized by an increasing movement of goods, services, capital, ideas and people across national borders; the development of regional trading blocs; growth in the number and expansion of global corporations; and a growing number of socioeconomic-environmental problems which require co-operation among several countries." (Betcherman 1996, 274)

The skeptics argue against the existence of globalization by pointing out that economic activity is still mostly national. It is argued that international trade is a sign of ameliorating relationships between national economies and not of anything global. Indeed, the percentage of trade which can be described as 'international' has only recently reached the level which existed prior to World War I.

Finally one can argue that globalization is in fact a regional phenomenon as most of the world is not included. (Perraton, Goldbaltt, Held, McGrew 1998, 135f.) A further difficulty is the fact that the temporal aspects of globalization are unclear, for the estimated starting points range from the ancient Greeks to the collapse of Soviet communism. (Hengsbach 1997, 5). One also has to admit that globalization, as established by the Romans 2000 years ago, went far beyond anything we may be witnessing today.

What is overlooked by the skeptics is the reality of globalization as a sociological and psychological fact, as a reality in our collective perception (This is not meant to be the imputation of some metaphysical entity. The collective cognition in this case only means that the notion of globalization exists in the minds of most modern humans.)

The debate about globalization has arisen more out of questions concerning the perspective and the interpretation of the world than out of any kind of "reality", (Hengsbach 1997, 3). The understanding of globalization as "a specific world-view built on an image of the globe itself as an arena for social action" (O'Byrne 1997, 75). allows us to see its problems much more clearly than a definition of globalization as an empirical economic fact. Globalization can thus be understood to be a synonym for the changing nature of economic and social systems (Beck 1998b, 9).

This understanding of globalization allows for a differentiated view of its problems. But what are - or are perceived as - the problems of globalization?
The dominant problem of globalization appears to be some kind of diffuse feeling that the economy is out of control. There seem to be no more institutions or instances which exert any kind of restraint over multinational corporations or markets. On the other hand the uninhibited subjects of international economy accumulate a heretofore unknown amount of wealth and power. This power often lacks any kind of democratic legitimacy. Maybe this development could best be understood as the realization of systems theory. The system 'economy' seems to have broken its ties with the other systems which are mostly based on the nation state.

There are a number of relevant and very real consequences which follow from this perception. The markets which were and are increasingly liberated from all political restraints have taken on a life of their own. Most noticeably, the financial and currency markets appear to have lost all contact with any sort of economic 'reality'. Foreign exchange transactions have reached a level of $ 1 trillion a day, (Drache 1996, 40). which is approximately 20 to 50 times the world trade in commodities and services. (Hengsbach 1997, 7). This "global movement of capital has become the nerve centre for globalization of the international economy." (Petrella 1996, 68).

The immense sums of money exert a strong pressure on all parties involved. National governments in particular are forced to obey the rules of international markets. This has led to strong pressure on governments to achieve and sustain balanced budgets. This in turn has led in some of the rich states, notably in Europe, to the fact that governments lose some of their political weapons to fight unemployment which has increased sharply in some countries. This unemployment is the most pressing problem Europe faces at the moment. Furthermore it is feared that the dominant paradigm of markets and competition will lead to increased competition among the states. This again could lead to a race to the bottom in fields like social security or work standards.

The mobility of big enterprises also engenders a new vulnerability of state or regional governments where the demands of the multinationals are concerned. Even large states can now be blackmailed by large commercial groups resulting in a diminished ability among governments to obtain taxes. These are further factors of internationalization, all of which "constrains the governments of the advanced capitalist countries in ways that prevent them from restoring full employment and forces them to roll back welfare states." (Martin 1997, 23)
Another problem of globalization may ironically be that it does not exist. One of the stronger arguments against the existence of globalization, as mentioned above, points out that globalization in fact is limited to the "triade", to the three economically strong regions of the globe, to NAFTA, the European Union and Japan. Included to a certain degree are also the "tiger states" but most of the developing world, especially Africa, is completely excluded.

With regard to the poor countries, globalization can be seen to be yet another step by the rich countries to exert control. Since this is no longer possible in a military fashion, modern economic control is more subtle but at least as efficient. In this regard globalization can be seen as just another instantiation of occidental imperialism. Economic imperialism again can be interpreted to be just one facet of cultural imperialism. Globalization may be just one more step in the annihilation of many native cultures in the attempt to reproduce western culture, life style and religion. A fitting notion for the description of this process is the "McDonaldisation" (Beck 1998c, 80ff) of the world.

When talking about the problems of globalization one should not forget to mention its advantages. The strongest and most commonly used argument in favor of globalization as liberation of markets from all kinds of control is the hope that free markets will always turn out for the best. This is basically the same thought that motivated Adam Smith's 'invisible hand'. The market economy in this view will lead to increased productivity, to increased output and to increased wealth. As the wealth of the rich increases the poor will benefit as well (trickle down).

Globalization can also be understood as a positive challenge which forces everybody involved to learn and to concern themselves with new cultures, to bridge the differences between cultures, (Koslowski. 1997a, 61). Furthermore, free trade demands free thought and free speech, in short democracy. "Globalization has an economic impetus, but this democratizing effect may turn out to hold its biggest and brightest surprise." (McAllister, J. F. O., 56). As it is often supposed that democracies do not make war amongst each other, one can even deduce that globalization will lead to a decrease in the likelihood and reality of war.

So far I have tried to show what globalization may mean and what consequences, positive as well as negative, it may have. To discern its ethical implications and what - if anything - responsibility might have to do with it, I now examine the notions of ethics, morality and responsibility.

Ethics, Morality, and Responsibility

Ethics and Morality

There are numerous ways to define the concepts of ethics and morality. In this article I will follow the European, especially the German tradition by distinguishing between ethics and morality. In German philosophy 'morality' (Etymologically the notion is derived from the Latin "mores" which means: the (good) customs). (Moral) denotes, for the most part, the conceptions and rules which govern the actions of individuals and collectives of a given society at a given time. (Similar: Ulrich 1997, 43; Albrecht 1995, 205; Steinmann / Löhr 1994, 8; Hubig 1995, 9).

This concept of morality is open to a functional interpretation which sees morality as a trivial affair, the purpose of which is to make possible humans' living together. Morality can furthermore be interpreted as means for the proliferation of genes, (Wilson 1993, see also the other articles in Bayertz (ed.), 1993), as a means for the stabilization of particular interests, (Marx 1969) as a compensation for human deficiencies, (Gehlen 1973) as an object for markets (Priddat 1998), or in many other ways.

If morality is the brute fact of the coordination of interests and actions, ethics can be conceived to be the occupation with morality, which can mean analysis, foundation or reflection of morality (Stegmaier, 1995). This differentiation between ethics and morality can be found in the work of a number of authors (for example Gethmann 1996, 37; Lenk 1997, 6; Beckmann 1996, 169) and it shall be used here because it can help avoid some misunderstandings. These misunderstandings are caused by the confusion of the two aspects, which is common in English literature on moral philosophy where ethics often means both aspects at the same time. It should be obvious, however, that rules and their theoretical foundation pose different problems. This shall become more obvious when the moral and ethical challenges of globalization are discussed in detail.

The ethical approaches are as numerous as the moral realities. Ethics can be seen as merely descriptive or as normative. There are teleological and deontological ethics, ethics based on reason or on aesthetics, universal or particular ethics and so on. It cannot be the task of this article to discuss these different views. There is one supposition, though, which is made here, which is that all humans are to be considered equal in respect to their moral rights. This supposition leads to the conclusion that ethics have to demand the universality of moral rules. The universality of morality is a conviction of most ethical systems and it is also the foundation of the Golden Rule which can be found in many cultures. (See for example Höffe (ed.) 1998, who cites a number of sources which show the existence of the Golden Rule in many different cultures).

After clarification of the notions of ethics and morality we now have to take a look at the notion of responsibility in order to finally find out about the relationship between responsibility and globalization.

Responsibility

The etymology of responsibility shows that it has something to do with answering. The use of the notion in moral philosophy is relatively new. The central problem of responsibility, the question of imputation, is nevertheless a very old philosophical problem. (Ricoeur 1995)

There are numerous attempts to define responsibility. Most of them agree that responsibility has at least two dimensions: the 'subject' and the 'object' of responsibility. The subject is the agent who assumes or is ascribed responsibility. Next to the subject there is the object of responsibility, that for which responsibility has to be assumed. A third dimension often found in the literature about responsibility is the 'instance'. The instance is usually thought to be the entity to which one has to answer. In legal responsibility this instance may be the judge or the jury. In the case of moral responsibility it is harder to determine what this instance might be. Some suggest it might be the community, the personal conscience (Mill 1976, 50 or Lenk 1997, 26) (which can be interpreted as the internalization of the rules of the community), (Walzer 1994, 396) reason, (Ulrich 1997, 63) or God (Kissling 1995, 424). More convincing is the idea of the instance as a "forum of responsibility" which is a group or an in individual to whom one has to answer (van Luijk, 1990, 41).

Apart from the differentiation of the dimensions of responsibility one can distinguish different types of responsibility. In addition to legal and moral responsibility there are role responsibility and task responsibility (Lenk 1991, 61). Other classifications of responsibility can be found in the literature (see Maring 1991, 140; Kaufmann 1992, 13; Ladd 1992, 293; Baier 1972, 56). Depending on the kind of responsibility one talks about there are different mechanisms of attribution of responsibility. Basically, responsibility can be attributed reflexively or transitively. The kind of responsibility and the kind of attribution determine the chronological direction of responsibility. It can be ascribed ex ante as in "I take full responsibility for everything which occurs" as well as ex post as in "I take full responsibility for everything that went wrong".

As has become obvious by now there are many different possible kinds of responsibility and it appears to be no trivial task to find a common element. However, I believe that there are three features which, despite all the different descriptions or classifications so far, all concepts of responsibility have in common. Firstly, there is the goal of ameliorating human life and community. The thought of the good life - whatever that may mean in any particular case - is a binding feature of responsibility (Ropohl 1987, 157) . Secondly, there is the conviction that the results of actions are relevant for their evaluation (Hager 1990, 60; Zimmerli 1991, 83; Zimmerli 1994, 4; Ladd 1992, 297; Ricoeur 1990, 341; Summer 1998, 7). Thirdly, responsibility is used in those cases in which the outcome is not clear enough to define duties that the subject is to adhere to (Etchegoyen 1999, 48).

For the ascription of responsibility a number of conditions have to be fulfilled. I will only address three here, namely that the subject play some kind of role in the chain of events, that it influence these events and that it know the consequences and about its own power to change them. This also implies certain qualities of the subject such as freedom, rationality, intentionality etc. which will not be discussed in greater detail.

Responsibility for the Challenges of Globalization

This chapter will take a look at the answers responsibility may offer concerning the challenges of globalization. To discuss this, however, it is necessary first to clarify the challenges of globalization. Corresponding to the definition offered above, the challenges will be divided into moral and ethical challenges.

Moral Challenges of Globalization

If one clings to the definitions given above, moral challenges arise from the conflicts between differing interests. Moral rules are a reaction to these conflicting interests. Whenever someone is impaired in his moral rights and interests such as his freedom or his abilities to develop himself, there is a moral challenge. As should be obvious from the description of globalization, there is a multitude of possible moral challenges of globalization.

To name some of them which have not yet been mentioned, one could start with conflicting cultures and religions which appear to have difficulties simply coexisting. Another serious problem, in which globalization plays an important part, is the inequality of the distribution of wealth. The fact that the richest 225 persons on this world own as much as the poorest 2,5 billion persons (UNDP 1998) leads to, apart from questions as to how and whether this may be justified, to such dreadful facts as that it is estimated that 35,000 children die every day from hunger or diseases that can be healed (McGrew 1998, 385).

But even within the rich countries distribution is increasingly unequal. "For example, in the United States the growth of incomes among the richest one percent of Americans has been so large that just the increase in the after-tax income of this group between 1980 and 1990 equals the total income of the poorest 20 per cent of the population." (Mishra 1996, 326f).

The distribution of wealth and power seems to be one important factor in most moral questions concerning globalization. This is also evident in the European discussions of globalization. There the most important issues are unemployment and resulting problems on the one hand and the possibility or impossibility of politics to combat this problem. Connected to these questions are the problems of the social or welfare state as well as the problem of the competition between political systems. All these questions are intimately linked to the question of the perception and definition of reality which itself is a question of power. If one agrees to the suggestion in the first part of this paper that globalization is mostly about a specific perspective of the world, then the most important moral question turns out to be who has the power to define what globalization is, and how is that power justified?

I will not dwell on these kinds of ethical problems of globalization any longer since these are discussed at length in many publications. A number of moral challenges obviously arise in the context of globalization. What may be another moral problem of globalization is that there is no hope for a moral solution to these problems because there is no common morality which binds all people. The failings of morality is the point at which ethics are challenged.

Ethical Challenges of Globalization

Ethics, as noted before, has the task of reflecting upon morality. The subject of this reflection may be the theoretical foundation of morality but another important task of ethics is the search for a solution in case of a collision between different moral norms. Globalization has one effect which is part of its cultural dimension that leads to serious problems for ethics. Globalization makes more obvious than ever the relativity of existing morality. Ever since the end of mediaeval times and the start of the Enlightenment era this relativity and particularity of all morality has been an issue and it has been the reason for many a philosophical elaboration. It is a rather new phenomenon, however, that the relativity of the norms of our daily lives has become common knowledge. Everybody who owns a TV or a radio knows that there are regions in which our standards and criteria are obviously not valid.

This perceived weakness of morality has led some authors to posit a new task for ethics. This task is the foundation of a new moral order which would be valid for the entire globe (For example Küng 1997 or Kopperi 1999). Even if one concedes that it might be desirable to have such a global morality, it remains highly improbable that there will be a consensus on the subject. The diversity of moral viewpoints also leads to a diversity of the perceptions of moral problems, especially of the moral problems of globalization. For example the moral challenges which are mentioned in this article are necessarily seen under a particular perception of the world which again is the result of occidental culture and religion. Knowing this one has to admit that it is in fact impossible even to conceive of all moral problems of globalization. It therefore appears that the first ethical task of globalization may very well be raising an awareness that we do not know all of its moral challenges. From this perspective it becomes obvious that there can be no moral, no material answer which ethics can give to the questions of globalization. If ethics can give any answers at all these have to be formal and procedural.

Since the subject of this article is the notion of responsibility it will be asked in the following section what connection responsibility has with globalization and what may be its specific answers to the moral and ethical challenges.

Responsibility and Giobalization

Responsibility is a notion which may have the potential to combine the capacities to give answers to ethical as well as moral challenges without falling into the trap of trying to offer a new morality. Taken back to its etymological root the concept of morality stands for the answer. It is therefore in principle a procedural thought which governs responsibility. One has to answer! This principle is at the same time a moral principle because it gives a specific material norm, which is to communicate. On the other hand it does not anticipate the solution to problems or even the definition of problems.

The specifics of every single answer, for every particular case of responsibility, have to be illustrated. To return to the dimensions of responsibility: one has to name the subject, the object and the instance (or ethical foundation) of responsibility. All of these dimensions can themselves become the impulse for new moral or ethical problems and thereby become objects of responsibility as well. The concept of responsibility is therefore reflective. The discussion concerning the realization of responsibility will have to clarify the dimensions. This clarification, however, only makes sense in specific cases and with specific relations between the dimensions. For any problem in particular one will have to find out what exactly is the problem, who has caused it and which are the normative standards to be applied or the "judges" who can judge the case. As van Luijk points out, if one or two of these dimensions are missing, the entire constellation loses its depth and precision (van Luijk 1990, 48).

Since the subject of this article is the question of the relationship of globalization and responsibility in general, the attempt to apply the concept of responsibility to globalization cannot be overly specific. To start with the object of responsibility in respect to globalization one can only say that it consists of those moral problems which are perceived to be moral problems, some of which were mentioned earlier. The subject has to be those persons, corporations or systems of action which play a role in the events which constitute the object. Finally there is the instance or the moral rules according to which responsibility is ascribed and which determine the results and sanctions of responsibility. Again the global notion of responsibility cannot tell us what these moral rules will be. It can only tell us that we have to find them, that we have to find them collectively, and that we have to answer for them. This, then, seems to be the first ethical rule which results from the moral challenges of globalization.

I believe that these thoughts concerning responsibility as a procedural attempt to realize material moral norms have some plausibility for philosophers of different backgrounds. They are based, however, on the ethical foundation of the German discourse ethics as they are expanded by Karl-Otto Apel and Jürgen Habermas. The thought of a real discourse as a precondition for the possibility of finding material norms appears to me to be plausible for other ethical traditions as well.

The ethicist has to give an answer to the ethical challenges of globalization. The alternatives to a procedural attempt such as demonstrated above would be to either do without ethics at all or to impose some kind of moral norm. Both alternatives are morally highly relevant and both have to be answered for. It appears that, so long as one does not blatantly ignore the rest of the world and cast aside all moral considerations, one cannot escape the assumption of responsibility.

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The Hard Reality of Soft Privatisations:

Social Responsibility in a Shifting Industry

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The Social Responsibility of the Corporation

What is the social responsibility of a corporation? While "hardliners" contend that the sole responsibility of a corporation is to increase its profit, "ethicists" often try to persuade them that the corporation has broader responsibilities to a number of constituencies, the corporation's stakeholders. At first sight, these views may seem to be radically different. But are they?

An often-cited "hardliner" like Milton Friedman himself acknowledged that the sole responsibility of a corporation is to increase its profit, as long as it stays within the rules of the game Friedman, 1970). What game did Friedman envision? The game of perfect competition. When that game is played, maximal welfare is reached when corporations do indeed maximise their profits. Welfare is defined here as the sum total of utility produced by (and reflected in) the transactions that freely take place on the market, and the Pareto-criterion traditionally serves to evaluate the generated welfare.

It is important to understand that maximal welfare cannot be equated with maximal profits. On the contrary, perfect markets will lead quasi automatically – simply by the virtue of being perfect – to a situation in which firm profits will be nil! This is the reason why corporations have to maximise their profits: if they didn't, they would surely be unable to reap the maximum amount of profits left to a firm operating in a perfect market, that is zero, which means that they would make losses and be driven out of the market.

Moreover, profit maximisation does not lead to maximal welfare when the competition is imperfect. The most striking example drawn from basic economic theory is the existence of monopolies. If the goal of corporations were to maximise profits, for sure they would try to get rid of competitors, raise barriers to prevent incumbents from entering the market and in some cases merge with their strongest competitors in order to reach a monopolistic situation. Theory teaches us that the monopolist can expect profits that exceed by far the wildest dreams of other entrepreneurs operating in competitive markets. Monopolies are at present prohibited in most European nations: they do not belong to the rules of the game. Why? Not because they make a profit, but because monopolies lead to a net welfare loss. Imperfect markets are not a zero-sum game: when a monopolist makes profit, consumers suffer a loss of utility that exceeds the monopolist's profit. The obvious consequence is that societal welfare drops when monopolies replace competitive markets.

What does that story about monopolies teach us? That the social responsibility of business in imperfect markets (i.e. virtually in all cases) is not to generate maximal profits. On the contrary, considerations about social welfare enter quasi automatically into the evaluation of business conduct, e.g. the condemnation of monopolistic behaviour. Hence we can safely conclude that the objective of corporations is not to generate maximal profits, but maximal social profit. Only in the mere theoretical case of perfect markets does the maximisation of social profit imply that corporations should strive for maximal profit. It is important for the next arguments to note that this remains true when the government is the (main) shareholder: though it is true that shareholder profits accrue to the collectivity in that case, there remains nevertheless a welfare loss.

This claim about the social responsibility of corporations is anything but revolutionary. Indeed, many proponents of a broad social responsibility will argue that the Pareto criterion is but a weak criterion to evaluate social welfare, for it does not take the distribution of welfare into account, and allows for gross inequalities. Such inequalities may hurt us when some people starve while others live in luxury; or they may appear to be counter-productive, because inequalities often generate social unrest; in any case, the Pareto criterion does not allow us to assess the level nor the significance of such inequalities. But the argument is sufficient to establish our point, which is worth repeating: the social responsibility of business is not to generate maximal profits.

Shareholders and Government

Though it is generally acknowledged by policymakers that the social responsibility of business is not to generate maximal profits, but to enhance social welfare, this view is consistently resisted, for understandable reasons, by a vast majority of shareholders and their closest representatives, corporate managers. For reasons that are largely institutional, the shareholders are the exclusive beneficiaries of a firm's profits. These institutional reasons include the legal system (Blair, 1995), the property rights (Williamson, 1980) and political power (Ellerman, 1992). As a consequence, when the objective of maximum financial profits conflicts with the objective of social welfare, self-interested shareholders have no reason to favour the latter, but a large interest in choosing the former. From the point of view of other constituencies, including the government, shareholders have a set of incentives that prevents them from choosing socially optimal policies.

Faced with businesses that further the interests of shareholders to the expense of other constituencies, government has the duty to correct the shareholders' incentive structure. Such corrections include e.g. financial penalties on firms that have a negative environmental impact, compulsory payment of severance allowances to workers made redundant, and taxing the residual profits of the firms for redistributive purposes. However, such corrections are far from efficient, and their efficiency is decreasing. For one thing, regulation always comes as a reaction to new evolutions, and the legislator cannot cope with the increasing rhythm of new evolutions. Moreover, the globalisation that takes place at a fast pace, and still accelerates, makes national governments increasingly powerless. Globalisation of business can be usefully understood as a process "whereby activities like R&D, production, marketing and delivery of products are divided into different segments of the firm spread across different national economies. Activities that were previously considered as market transactions between different firms across national boundaries, have now become internalised within the borders of one company." (Van Liedekerke, 2000) As a consequence, national authorities lose an important part of the control they had in earlier times on the activities of firms located within their national boundaries.

When government regulation fails for these or other reasons, two other means of regulation are available. The first one is self-regulation. Every shareholder may understand its usefulness: one overtly acknowledged goal of self-regulation is to avoid cumbersome and inadequate government regulation (see e.g. the telecom industry initiative at www.ceei.org). This makes sense, as a consequence of the information asymmetry between government and corporations: the latter know far better the limitations of, and opportunities offered by the technology, and a moderate self-restraint may prove beneficial. For obvious reasons, self-regulation is most effective when it takes place at the level of the industry. This is however one of the limitations of self-regulation: when competitors cannot agree on minimal standards of conduct, these are tough to enforce, and it suffices that one outsider rejects these standards to make the whole initiative a failure. Another limitation of self-regulation is encapsulated in the fact that moderate restraints may prove beneficial to the firms. How moderate is that? In many cases, moderate self-restraint will fall short of socially desirable achievements.

The third means of regulation is market regulation: when the consumers are aware of the social or ethical issues at stake, and reflect their concerns in their market behaviour, market forces will drive suppliers to adapt their behaviour to the customers' demands (Dunfee, 1998).

Corporate Social Responslbility Towards the Employees

The social responsibility of corporations does extend to several constituents, but many would argue that it extends first and foremost to their employees (e.g. Leader, 1999), who are closest to the corporations, and whose lives are most deeply influenced by these corporations. Employees are permanently at risk of losing their job and their income. Risk is inherent to economic life, because corporations have to meet the preferences of customers. These preferences change continually, together with the technology that is used to develop new products. If one accepts that consumers' needs are allowed to change, which is a basic democratic tenet, one is bound to accept change and hence risk, in corporations, sometimes even the closure and liquidation of corporations, and the termination of employment. This is why no single employee can claim that he has a right to stay employed in a particular firm ad vitam (provided certain procedures have been respected), whatever disutility he may experience from his being laid off. This is neither a contractual right nor a right granted by the government.

In most Western European countries, corporations were being expected, from WWII until the early eighties, to provide lifetime-employment to their employees, but this expectation has never become a right. When an employee is laid off, he is entitled to an allowance, the level of which is set by the government, but the corporation has no further legal duty to care for an employee after being laid-off.

Things are different however in the case of collective lay-offs. First, the sum of the disutility experienced by the workers laid off may amount to a very substantial welfare loss. Second, such layoffs may affect adversely the economy of a whole town or even region, with an important impact on the collectivity. Third, collective lay-offs fore-mostly affect older or less qualified workers, whose position on the labour market is very delicate because they are often costly, and assumed to show little readiness to adapt themselves to new job opportunities (sic). A large proportion of those workers abruptly made redundant is not likely to find alternative jobs, and will depend on the state welfare system for the rest of their "active" life, meaning a very large cost to the state budget. These are sufficient reasons for most government representatives and for the public opinion to be upset when collective lay-offs are made public – and the media present daily testimony to these upset feelings.

Some collective layoffs are undoubtedly unavoidable. Paradoxically, they may be more difficult to avoid in the lifetime-employment model, because this model rests on the assumption of steady economic growth. When the economy is confronted with a shock, this shock according to that very assumption is unexpected. The socially responsible firm confronted with an unexpected shock faces the following choice: either to proceed with the layoff granting the most consideration possible for the interests of the people laid off (generous severance allowance, early retirement provisions, etc.), or to keep all its employees and accept having to bear the high costs of that policy, costs that may jeopardise the future competitiveness of the corporation.

Since the early eighties the economic context has changed though, and the pace of change is speeding up. No one can realistically claim to be immune to change any longer. Consequently, shocks are increasingly expected. Obviously, it is never clear when the shock will take place and who will be struck, but it is certain that a shock will eventually happen. In such a context, it is a plain matter of good policy for both managers and employees to prepare themselves for possible shocks. It is also the social responsibility of corporations, not to avoid collective lay-offs at any cost, but to manage their workforce so as to minimise the costs of such an extreme solution, for the employees themselves, for the local community and for the broader collectivity. Understandably, employability has become the key to that shifting social responsibility. This means that an employer has the power, hence the responsibility, to develop the skills of its employees through training, job rotation, permanent education or any other means, in order to enable them to find another job in case they become redundant. This is not to say that lifetime employment is outdated, since this other job may be found within the same corporation. The paradigm of lifetime employment has nonetheless changed radically in the sense that it no longer means lifetime employment in the same job (or same career track) as it once did.

Belgacom: the Case of a Belgian Telecom Operator

This story starts in 1987, when the European Commission suggested speeding up the development of the European telecom industry by gradually liberalising the sector. Cable and mobile telecommunications were to be liberalised in 1996 and the full liberalisation of vocal telecommunications would take place in 1998. In Belgium as in most other European countries, the sole telecommunications operator at that time was a state monopoly. Five years after the EC decision, the Belgian state transforms its operator into a public limited company renamed Belgacom, and in 1994, the capital of Belgacom is opened to private investors. The Belgian government sells 50% minus one share of Belgacom to a consortium of three financial companies and three telecom corporations (Ameritech, TeleDenmark – of which Ameritech is the major shareholder- and Singapore Telecom). In the same year, Belgacom creates a new subsidiary to develop mobile telecommunications. The input of the external partners is materialised for the first time in 1996, when Belgacom launches it TURBO-programme (Transforming, Upgrading, Responsibilising Belgacom Organisation) aimed at changing the corporate culture – from a bureaucratic culture of civil servants to a client-driven culture of professionals. At that time, 25.000 people work at Belgacom. Two years later, in 1998, Belgacom launches a restructuring programme called PTS (People – Teams – Skills). This programme involved 6,300 early retirements on a voluntary basis, transferring 8,500 employees to new jobs within the company, and hiring 1,500 new employees. As the pace of change accelerates, Belgacom launched several reorganisation programmes in 1999 and created a new Data Networks and Applications (DNA) division in the same year. Together with the mobile division, the DNA division represented 34% of the activities of Belgacom in that year. This figure is expected to grow to more than 50% in 2001, and this expectation led Belgacom to initiate its BEST programme in October 2000 (Belgacom E-business Strategic Transformation). It has been announced that this programmewill involve a further decrease of the number of employees from 19,000 to 15,000 people.

The BEST programme is intended to transform the former state monopoly into an e-telecom business. The aim is to shift customer service, internal administration and supplier relationships to electronic systems. Running such a corporation requires a staff that has new skills. The surprising fact is that Belgacom claims to be unable to train its current staff members. Instead it wants to get rid of 4,000 people, mainly administrative personnel, and hire an unspecified but much lower number of qualified people. This is surprising because in its 1997 Annual Report, Belgacom claims that "The future is often predictable", that "Change is the key-word" (cfr. www.belgacom.be). On its website, it also claims that "training and education is the shared responsibility of the company, the supervisor and the employee". By contrast, if Belgacom now admits to the need to training thousands of people, its inability to do so raises doubts about its ability to determine its medium-term HR strategy. Another obvious reason for the planned lay-off is the will to cut costs (estimated from 220 to 450 billion €), especially by replacing costly elderly employees with cheaper youngsters: Belgacom still employs 3,300 people aged 50 or more. Indeed, the way in which Belgacom intends to decrease its workforce targets primarily the elderly: 2,000 employees should benefit from early retirement, while Belgacom suggests that another 2,000 would be "taken over" by the government and redeployed in several ministries. To say the least, this last suggestion is quite unusual.

Analysis of the Case

First, it is obvious that the (Belgian) telecom market is not a perfect one: there are high barriers to entry, a very limited number of competitors, etc. Hence the maximisation of social welfare does not command that shareholders would maximise their profits. Instead, balanced benefits should accrue to the different stakeholders, in this case mainly shareholders and employees. When a heavy burden threatens the employees, one would expect the shareholders to carry part of that burden. Nonetheless, we have witnessed the contrary. The management has suggested that a portion of the "redundant" staff be employed by the government, that others benefit from a government-sponsored early retirement, while the company makes record profits for the year 2000. Belgacom's turnover increased by 11% to 5 billion €, while its net profit raised to an all-time high of 435 million €.

Second, despite its intentions and its repeated declarations, the announcement of this lay-off proves that the management has been either unwilling or unable to anticipate the future. Though training and development are essential features of modern HR Management, especially in the fast-evolving telecom industry, Belgacom has failed to provide thousands of its employees with the training that would allow them to use the new technologies. Lay-offs are easy, from a managerial point of view, but they are much more costly for society, and may turn out costly for the company as well, when they undermine the morale and commitment of the workforce. Third, if the management fails to bear the cost of its own policies, should the government intervene and share that cost? This case is a tricky one, because the government is still a majority owner of Belgacom. The government is simultaneously claimant and judge. Though some members of the government have already rejected the possibility to hire part of the laid off employees as civil servants, the government is expected to accept early retirements only a few months after it announcement that it would try to curb the use of early retirement. Indeed, Belgium has been repeatedly advised by the European Union to do so, because it has the lowest activity rate of the OECD among people aged 50 or more. Only one out of three is still working, while the others are either retired, or early retired, or dependent on the social security in some way, or have never worked.

Fourth, the government, as the majority shareholder, has failed to take the opportunity to lead by example. Whatever incentives the government may devise for corporations to avoid massive lay-offs, whatever support the government may provide for emerging initiatives towards self-regulation, it has sent fundamentally the wrong signals to the corporate world by being unable to walk its talk.

Lessons and Conclusions

The fundamental problem in this case is a lack of accountability. Belgacom's shareholders and management are not accountable to the government, that is at the same time claimant and judge. The government itself, in this matter, is not fully accountable to the voters, arguing that these restructurings are consequences of the liberalisation of the telecommunication industry, and that in this matter its role is limited to the application of decisions made at the European level. The fact that by far most decisions made at the European level require unanimity is "forgotten" by the government when these decisions have to be applied years later, and the voters are generally unable to remind the government of that fact, since most of them are unable to see through the intricacies of decision-making at European level in the first place.

Neither is Belgacom accountable to the wider public: the Belgian markets are generally speaking quite remote from the "moral markets" envisioned by Dunfee (1998) and the telecom market does not offer the consumer many opportunities to sanction Belgacom. Indeed, Belgacom has still a monopoly in traditional phone services in most parts of the country, and the consumer is captive: he cannot turn to alternative operators. Other markets where Belgacom is active (internet communications, mobile phones, etc.) are competitive, but Belgacom also clearly benefits in those markets from its past status and experience as a state monopoly.

So the main lesson to be drawn from this case is that social responsibility is at risk of remaining nonsensical as long as it is not accompanied by social accountability, by which we mean accountability to the different stakeholders. These include the shareholders, of course, but the shareholders themselves must be accountable. In this case, private shareholders being in the minority lacked incentives to stimulate both socially responsible managerial behaviour and accountability to the wider society. Obviously, the stakeholders include the government too. This case makes it obvious that the government is not fully accountable – but this topic reaches far beyond the scope of this article. This case however, makes it clear that government involvement in the ownership of corporations is a guarantee neither for good management nor socially responsible management, though the government's primary interest should be the pursuit of social welfare. This suggests that the government would be in a much better position to care for social welfare if it was not involved in the ownership of corporations, because then it would not have a confused role as both claimant and judge. On the contrary, management would really become accountable to an independent government – and the management could also be made fully professional, freed from direct government intervention.

This is not to say that governments should abstain from any kind of intervention on the markets. On the contrary, another lesson from this case is that the government has an important role to play. Its tasks are (and remain) to educate the consumers and make them aware of social responsibility issues, to develop competition that will allow consumers to sanction irresponsible and unaccountable firms on the markets, to stimulate self-regulation and, where necessary, to take appropriate regulative measures. The recent inter-professional agreement making it compulsory for Belgian firms to devote at least 1.9% of their personnel budget to employee training is a beautiful example of useful government-sponsored regulation, and a nice note of optimism on which to conclude this article.

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Cooperation and Trust Essential to Business

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Dr. Michael Phillips, President of the *Frank Russell Company,* an international firm managing well over one trillion dollars in investments, suggests that the best graduates of our School of Business should have three qualifications:

1. An outstanding personal reputation! Above all, respect everyone, especially yourself. Your good name is entirely in your own hands.
2. Technical mastery! Your professional work will change rapidly in an environment of constant technical innovation. You'll have to keep up your professional competency.
3. International orientation! A firm successful in the future will be an international company. Good ideas may originate anywhere, but their applications will take place throughout the world.

We believe that this is also good advice to the students and graduates of the Estonian Business School. These qualifications are based on values learned at home, in school, and at work. In part, they emerge from general and professional schooling. Together, they form a particular managerial mentality that is well suited for economies in transition.

Frank Russell Company traces its growth to a major innovation 40 years ago when the present Chairman, George Russell, then a young financial expert educated at Stanford University and at Harvard Business School, analysed trends in savings. He found an expanding market niche in managing retirement and pension funds in Tacoma, Washington. This search for new opportunities was linked to his unusual technical and managerial competencies, and to the wisdom of his grandfather, Frank Russell, an outstanding entrepreneur of his day. Absolute fairness and honesty were the values at the core of his business culture. This foundation of a clean reputation and superb technical skills helped George Russell to build a superior team that included the best graduates from the best schools (even one Nobel laureate in ecônomics!). At a time when few Americans were thinking about financial markets abroad, George Russell deliberately made his company international in scope. Indeed, one of us met Michael Phillips, a London lawyer, first when he was the young *Russell* manager in London.

Examples of unusual innovation, excellence in technical improvements, and awareness of the importance of larger markets can be found much closer to home, and earlier. In 1656, in the Sweden of Charles X Gustav, an inventive and persuasive Livonian named Johan Palmstrüch became the founder of the first modern central bank, Stockholms Banco.

At that time, the most common metal used for Swedish currency was copper, fine for low value coins. The shortage of gold and silver in Sweden led the royal treasury to issue stamped sheets of copper in values up to 10 *dalers* and about 16 kilograms in weight. In 1661, Palmstrüch was permitted by the Swedish government to establish a bank to take copper money deposits and issue an alternative currency. This currency was freely circulating credit notes printed on the finest paper and authenticated by no less than eight impressive signatures. It was a great idea and a useful innovation for those tired of carting around slabs of copper. The Swedish trade was large enough to support Stockholms Banco. The bank's credibility was enhanced by the prominence of the bank's board and its chief inspector, who was also Sweden's chancellor of the exchequer.

Unfortunately, the bank made questionable loans, failed to maintain adequate reserves, and issued too many notes. It lost the public's trust, and was unable to meet its obligations. Without trust, the bank failed. Palmstrüch faced the death penalty in 1667; he was lucky to have it changed to a prison sentence.

Stated broadly, individual enterprises and whole transitional economies require the injection of three integrated investments. The first is **traditional capital,** in the form of funds or physical assets accumulated in savings or provided by external investors. The second is **human capital,** represented by education, training and skills. The third is **social**

capital, often defined as an environment of mutual trust and a high level of cooperation. As the last decade in the Baltic states has shown, significant progress begins to take place when the level of education rises and skills increase. More progress comes when the players in transitional societies have learned to trust and cooperate with each other. The last—the importance of managerial value systems in societies in transition—is the least expensive and also the most difficult of conditions to create. It has been the focus of our research attention in the Baltic states for the past ten years.

The values of present-day Baltic managers are diverse. Managers range from pragmatic or practical in orientation, to rationalistic or engineering-oriented, to moralistic bureaucrats and other seekers of justice and better control, and those who identify with comfortable harmony and a civil society in their own communities. Although market oriented societies tend to be rather pragmatic, the desirable mixes of managerial values may vary from one organisation to another.

Our research shows that Estonian managers, surveyed some time ago at EBS, are unusually pragmatic in their personal values. This pragmatism is confirmed by the study of first year students by Lembit Türnpuu and Anu Virovere of EBS. Their findings are not inconsistent with our own surveys and interviews of advanced business students and more experienced managers. The views of our respondents were shaped by commitment to the values of professionalism, ability, creativity, productivity, organisational effectiveness, rational approaches, concern about clients and customers, taking risks, profitability, and personal success. These are strong preferences that represent operational values that actually guide individual behaviour.

In Latvia, managers' value orientations are especially diverse. Some Soviet style Russophone and Latvian factory managers have mindsets strongly oriented to physical production, while others are government bureaucrats in search of compliance, and others are managers without clear-cut pragmatic styles or convictions. Lithuanian managers we have studied prefer to have close and friendly ties with their communities, to be more attuned to leaders, and to have stronger social concerns.

This variety among managerial values suggests to us that within the Baltic markets, there already is obvious necessity for mutual understanding and tolerance, and for increasing trust and cooperation. Managers in all three Baltic states appear to dislike aggressive behaviour. This suggests that they may take a careful, possibly passive approach to opportunities for cooperation, and may be wary about extending trust. Estonians and Lithuanians place trust among the top ten of 66 values we measured, but value cooperation much less. Conversely, managers in Latvia place cooperation among the highest values, leaving trust rather low in the scales. They may reflect an environment of prevailing distrust. Simply put, Russophone managers in Riga seem to have little trust in anyone. In Latvia, carefully structured relationships are built first. Trust comes later.

It may well be that the mentalities of Baltic managers are best analysed in relationship to the administrative and managerial role models familiar to them. In order to develop values better aligned with a market economy environment, it is important to emphasise new business models. In keeping with an international orientation, there ought to be a deliberate effort to move away from unnecessary controls and what we believe are influences of past conquerors and rulers. In all three Baltic states, we would like to see new business cultures that favour innovation, organisational cooperation and international alliances.

Jane Jacobs, a celebrated critic of contemporary city planning, distinguishes two principal ethical behaviours of civic and business leaders. The first is mostly a culture of conquerors and the *guardians* of inherited power. The other, more in line with what Estonian managers have observed and worked with in the Nordic countries, is a culture of more democratic civil societies and *merchants*. These two cultures do not exist in a pure form. Both are found side by side in the most advanced economies. Frequently enough, they also may form particular balances of power and economic efficiencies that may or may not be suitable for any given organisation. Moreover, they are further influenced by a variety of mostly inherited bureaucratic systems and procedures.

Here are the characteristics of what Jacobs calls the *guardian moral syndrome:*
- Shun trading.
- Exert prowess.
- Be obedient and disciplined.
- Adhere to tradition.
- Respect hierarchy.
- Be loyal.

- Take vengeance.
- Deceive for the sake of the task.
- Make rich use of leisure.
- Be ostentatious.
- Dispense largesse.
- Be exclusive.
- Show fortitude.
- Be fatalistic.
- Treasure honour.

Clearly, the syndrome above is that of power, commands to reinforce it, and controls to preserve it. It has served effectively in a different age. It is not very compatible with an era of a global economy, international cooperation, innovative teamwork and an unremitting technological change. By definition, it is conservative and devoted to the *status quo.*

In contrast, here is what Jacobs calls the *commercial moral syndrome.*

- Shun force.
- Come to voluntary agreements.
- Be honest.
- Collaborate easily with strangers and aliens.
- Compete.
- Respect contracts.
- Use initiative and enterprise.
- Be open to inventiveness and novelty.
- Be efficient.
- Promote comfort and convenience.
- Dissent for the sake of the task.
- Invest for productive purposes.
- Be industrious.
- Be thrifty.
- Be optimistic.

The two systems for survival behaviour suggest interesting and useful options. It is obvious that modern managers in the Baltics will have to shape and influence the values and norms of politicians seeking power, just as has happened in the West during the last two centuries. The beliefs and the systems changed in the West with revolutions in America and in France. Unfortunately, they were reinforced in the Baltics by Russian monarchy and Soviet rule. Baltic managers now have to decide the nature and degree of cooperation with the structure of political power. They'll have to persuade politicians to make necessary investments to help raise the levels of public and private education. They'll have to find ways to increase social capital in the Baltics, first by making the justice system far more effective than it is today. Indeed, one of the hallmarks of the commerce syndrome is enforcement of laws and the swift and certain justice of *ius mercatorum* when offenders with still dusty feet *(pieds poudres)* are brought from the market place to the court. Baltic leaders and managers will have to decide what is and should be good for them, their business organisations, and their partners abroad. They'll have to make hard choices. They may elect to work with the autocratic structures in the East, or within the democratic, yet demanding, economies of the West. They'll also have to work with the bureaucracies in their own capitals and in Brussels. In the ever-changing transition and transformation, they will have to define cooperation and trust for their purposes. As we have seen, these are defined differently in different systems.

We find that modern managers will need systems that are dynamic enough to take new opportunities in their stride, and to move quickly to higher levels of economic achievement. To get there sooner is important. Good examples have educational and inspirational value. Thus our Estonian respondents, representing a country of gradually improving economic growth, are more optimistic about their future than Latvians and Lithuanians. Baltic entrepreneurs and professional managers alike have to examine and change their own value systems and their behaviour. Under conditions of rapid transformation, they have to show to their colleagues, employees and partners the following:

- Honesty and credibility
- Technical and managerial competence
- Predictability and reliability of judgement
- Loyalty to their teams
- An environment where their views and available information are openly shared

Only these managers can build strong and innovative teams to face future challenges and the competition in an increasingly international market economy. They'll be responsible for meeting new demands for higher quality, lower costs, and delivery on time.

To return to our earlier observations, the lessons for Baltic entrepreneurs and managers are clear. In their work, they must integrate traditional investments in people, machines and materials with education and training, and with social capital formation. A successful entrepreneur has to be more than an active, skilled administrator. For success, the technological firm relies on internal teamwork and external alliances to stay ahead of the competition. Where the innovation to be promoted is substantial, and the target sales are large or distant, the credibility and reliability of innovators is of paramount importance.

Ethics at the Workplace

as the Success Factor in the Informatlon and Communication Society, Based on the Study of Conflicts in Estonian Companies

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'The man who removes a mountain
begins by carrying away small stones'
Chinese Proverb

Our environment is rapidly developing into a sophisticated jungle, which is driven by information technology, financial capital, intellectual capital, emotional capital, ethics etc. Millions of years ago we came out from a jungle and now we have created another we have to fight with in order to survive. The only difference is society's development level. Nature, which was once the main information storage and processing unit, will be replaced by high-capacity computers. Financial capital which was once fish or fruits is replaced by stocks, bonds etc. Intellectual capital, which was once knowledge in the heads of people has now widened its extent to production facilities, work procedures and so on. Therefore, it seems that we are again in the beginning of a new circle and it is again all up to us.

From the first jungle we escaped thanks to our strong will to survive. We made some correct choices, which were supported by nature. Today, being on the battlefield of FC (financial capital), IC (intellectual capital), EC (emotional capital) and BE (business ethics) we have to again make choices in order to escape the traps which are not created anymore directly by nature but by ourselves. The only difference is that the artificial environment, created by us does not support the decisions driven alone by our will to survive. Today we have to make choices which are aimed at development and continuous change or as hockey star Wayne Gretzky has said, his success does not lie in its ability to skate where the puck is but where it will be (Huang, 1998).

As we want to evaluate organisations at the level of competitiveness, ethics and success originating from theories of intellectual capital (Roos, et al, 1997) , internal marketing (Ballantyne, 1997) and business ethics (Chryssides, 1995) , we end up usually at the same point. It is all about the people and their ability to adapt.

Despite the technological revolution we have to admit, that employees are still the most valuable assets and their fair treatment is an opportunity to motivate them better and to exploit their resource more effectively. Employees, their knowledge, skill and ability to use these assets play the most significant role in the company's success.

As Thomas A. Stewart says in his book Intellectual Capital- The New Wealth of Organisations (Stewart, 1997) : "Knowledge has become the pre-eminent economic resource – more important than raw material; more important, often, than money...
Knowledge has become the primary ingredient of what we make, do, buy, and sell. As a result, managing it – finding and growing intellectual capital, storing it, selling it, sharing it – has become the most important task of individuals, businesses, and nations...

Knowledge work – the work of planning, supervising, scheduling, and managing – has become part of the job description for hourly workers... It's not only that more people do knowledge work, but the knowledge content of all work is also increasing, whether it's agricultural, blue collar, clerical, or professional... Now skill is mental rather than manual... Knowledge work is utterly different. It has a professional flavour. Professionals are measured not by the tasks they perform but by the results they achieve... When work is about knowledge, the professional model of organisational design inevitably begins to supersede the bureaucratic."

According to the previous management paradigms a good worker is the one which fulfils the orders without thinking. This way of thinking has worked quite well for centuries. It worked also quite well in the end of the twentieth century but then slowly but surely it started to crack. Kevin Thomson and Stephen Welch carried out a survey in the US to find out the factors that guide people in their job. The results showed that the key factors are stress, challenge and anxiety. We should not see them as separate but as an output of negative emotions. In the same survey they asked which emotions should drive the company and the answers were passion, pride and commitment (Thomson, Welch, 1998). Therefore, managers have made a huge mistake and alienated the employee from the organisation by creating double structures and cultures which only work on paper and creating at the same time feelings that do not support development.

More and more employers admit that one motivated and creative worker is worth more than ten of his/her mindless counterparts. Organisations have understood that only thinking and motivated employees are able to help them in acquiring a competitive advantage. It is impossible to succeed if you have a company with people who just come to work and go home in the evening unwilling to come back next day. Therefore, the need for people who want to do what they can do is rising constantly. The reason for such a situation is the tough competition on the market that we hear every day on the radio and television. It seems that only the ones that have the most motivated and educated employees will survive and succeed.

In the light the theories of intellectual capital and the works by Daniel Coleman (1997) in the field of emotional intelligence for motivating people and making them work for the welfare of the company, we need a positive microclimate and decision-making opportunities (Vallance, 1998) . Internal marketing theory claims that a company's employee must be its 'first client'. According to business ethics a person's obligations depend on satisfaction of their rights.

As we started our research, gathering and analysing conflicts, offering training and consulting at EBS with the aim to improve management and to create a motivation system for Estonian companies, several problems arose. These problems were/are derived from the effects of the post-soviet society on one side and from a lack of experience in new management paradigms on the other.
In the beginning we asked ourselves the following questions:

- Why are people able to work with real passion and commitment in some circumstances while their desire to put extra effort into their job vanishes in environments that are only slightly altered ?
- What makes some people happy with their work while others hate it?
- What are the antecedents of good customer care?
- What could management do to ensure that employees enjoy their work and are therefore willing to take every opportunity to improve their skills and competencies?

Looking for answers to these questions we use the three previously mentioned theories.
Answering those questions from the aspect of business ethics we can analyse the decision-making process or terms of power, conflicts, bureaucratic pressures and communication breakdowns (Jackall, 1998).

In order to evaluate ethics and the management of human resources at the workplace conflicts were chosen as the subject of our research. Since 1997 about 1,900 conflict descriptions have been collected and analysed. The research has been carried out among local enterprises with the help of Estonian Business School and Tallinn Technical University students.

Conflict is more than just mere disagreement on differing views and opinions. It is more than just healthy competition.

Conflict is a condition that arises whenever the perceived interests of an individual or a group clash with those of another individual or a group in such a way that strong emotions are aroused and compromise is not considered to be an option. Conflict, when managed effectively, can contribute to organisational effectiveness, but when mishandled can give rise to counter-productive behaviour, in which both sides lose (Cole, 1995) .
In the following analysis we assumed that conflicts are characterised by the following points:

1. Conflicts are inevitable
2. Conflicts will not solve themselves nor will they disappear
3. Every unsolved conflict creates new conflicts
4. Conflict is a status indicator

We found that conflicts to be the most appropriate means for such an analysis for several reasons. Nothing else gives us so much information about the state of a company as conflict. Therefore, conflict could be considered as an indicator of the state of a company. As we usually take different indicators we have to build a big picture of them. This big picture usually contains a considerable number of our opinions and therefore is not quite objective. Conflict on the contrary is already a big picture since it includes very different factors. Therefore we get double the information from conflicts – at first it gives us indicators and secondly it shows the links between them.

The collected conflicts include descriptions of the conflicts and their resolutions. According to that, they are divided into different categories such as reason, functionality, verticality etc. Our interest is focused mainly on the reasons for conflict. According to the results of this research, the three top reasons are:

- lack of information,
- lack of teamwork,
- unclear work procedures and rules.

These results are quite interesting since they include values that are repeated as the basic components of future society every day. We hear from day to day that we already live in an information society, which should increase the rate of co-operation and the transparency of our actions. Why do the results tell us the contrary? As we look at the results, it seems as though the research was carried out in the 19th century. We could construct a hypothesis saying that the region, which was observed, is tehnologically less developed. But as we look at the relevant indicators we can see that we were not right. Estonia has 1,439,197 (01.01.2000) citizens. 236,000 (Hansapank, 2001), of these citizens actively use Inter-net banks provided by the two biggest banks in Estonia. It is not possible to consider such a state as technologically underdeveloped. The previous figures have been chosen because they best reflect the ability to connect hi-tech with everyday needs. Therefore the problem does not lie in information technology and we have to find some other explanation.

In the survey mentioned 277 conflicts were analysed in greater depth (Beek, 1998). As we look at them, we can list some very interesting characteristics. 193 of these conflicts were vertical and 94 horizontal (some conflicts were vertical and horizontal at the same time), which points strongly to shortcomings in management. If we link these results with the previous statistic, then the main problem seems to lie with the management and communication. Here, we could ask if one of these results affects the other. At the beginning of this article, we suggested that there is a major shift going on in attitudes toward employees. The employee will soon no longer be an object with some motor functions, which the employer needs in order to achieve his/her goals. The employee is becoming more and more a human creating additional value with his/her brainpower. As we look at the labour market, we can see that some changes have already taken place. According to the old values, the employee did not want to think and was important only as long as the bottom line showed positive figures. How and when it was achieved and whether it was regulated by legislation the employer did not care much. Therefore two ethical norms were violated (Gerwen, 1994):

- the right to participation,
- the right to work satisfaction.

These violations are caused by two attitudes managers have acquired:
- managers underestimate the importance of an ethical criterion – it seems that managers do not realise that a good, conflict free working environment encourages people to work in a more committed manner, which in the end is profitable for the company
- the human aspect seems to be insignificant – it seems that most of the conflicts end in two ways. Firstly, an employee gets fired or secondly, an employee leaves the job without the opportunity to defend him/herself. Managers do not realise that the loss of an employee is a loss not only for the employee but also for the company. In conflicts where solutions are found, the employees' interests are still violated (Lall, Michkeviciute, 1999).

In the introduction we mentioned that in order to survive and succeed we have to want to develop and change. But how could a company succeed if its employees are remembered from day to day as being worthless and they are not paid for thinking. To be competitive in the 21 century every organisation must acknowledge that the main resource lies in employees and their ability to create and innovate.

Human capital is the value of competence, skills and knowledge in relation to the company, possessed by individuals. Individual capital is related to the value of personal knowledge and commitment essential to companies aiming at flexibility and decentralisation. Individual capital is thus the part of the company's value, which goes home at closing time every day.

The value of a company is not valued anymore on the basis of its existing assets but on its opportunities, hidden in employees and structures. Therefore the attention has shifted onto hidden value, which should find a materialistic output in the future. These changes will put all managers in a very difficult situation because they have to learn quickly to operate in a hidden world and see the invisible. We can be sure that they will not survive alone. Therefore they need some help and the only help lies in the employees, which have only fulfilled orders until today. And here lies the problem managers have to overcome. They have to start to see an employee as a creative being and not as a simple means for achieving their goals. Yes, it will be difficult since the organisations are at the same time loosing their power over employees. It is happening because of the change in the work environment.

"This development has led us to a situation, which the communists always wanted to achieve. The means of production which was the traditional basis of capitalism now belongs directly to the workers and the minds and fingertips of the employees." (Handy, 1994). Since the means of production belong to employees, the employer has to find ways to motivate employees in order to exploit his/her hidden resources. This should lead to a situation where the only things managed centrally are values (Thomson, Welch, 1998). Therefore, in order to succeed, managers have to give employees back their right to participate and their right to satisfaction.

In a recent article in the Harvard Business Review, Timothy Luehrman of the Sloan School of Management, MIT, observed that the value of companies derives from three main sources:

- operations
- opportunities
- ownership claims

Operations indicate all the assets-in-place, that is all the assets which contribute to the normal day-to-day routine of a company. Opportunities bring together all the 'possible future operations' of a company, that is, all the possible future expansions the company may undertake. Finally, ownership claims represent any shareholding in other companies (Roos, et al, 1997).

As already mentioned in the introduction, the theory of intellectual capital deals with the future. Therefore, from the previous enumeration, the attention of intellectual capital focuses mainly upon opportunities. The opportunities themselves depend on the environment and the revenue from them depend on the company's ability to exploit its resources most effectively in a changing environment. The theory of intellectual capital deals not so much with assets but with the management and development of skills that are necessary for success. "Intellectual capital is intellectual material - knowledge, information, intellectual property, experiences - which could be used for the creation of wealth." (Stewart, 1997).

Therefore, intellectual capital could be considered as a completely immaterial asset, hidden in the knowledge, skills and experiences of workers or as one of the leaders of SEC M.H. Wallman has said, "...intellectual capital consists of all the assets in the company, whose book value at the moment is zero." (Edvinsson, Malone, 1997).

Intellectual capital has the following characteristics:

1. fixedness as a patent or flexibility in the case of human capabilities
2. the ability to be the input and output at the same time
3. intellectual capital will be the final result of the transformation of knowledge (Dzinkonski, 2000).

We all agree that there is a positive correlation between the market value of a company and the loyalty of its consumers and employees. Until recently the management of the factors that influence that correlation has been quite intuitive. Such behaviour was and is caused by the unclear nature of the picture of factors that really affect the future of a company. The theory of intellectual capital tries to solve that problem.

The Swedish company Skandia could be considered as the flagship in terms of the use of intellectual capital theory. It has devised the structure of intellectual capital in the following manner:

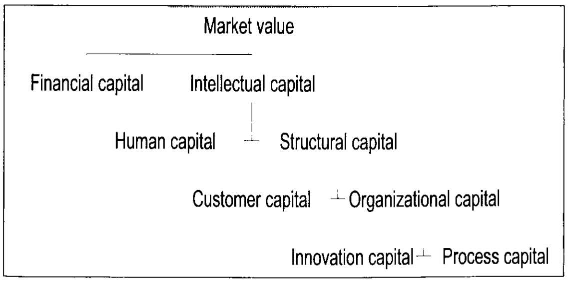

Figure 1 The structure of intellectual capital (The Danish Trade and Industry Development Council. Intellectual Capital Accounts (Reporting and managing intellectual capital), The Danish Trade and Industry Development Council, 1997, p. 40)

Skandia also carried out most important research, which tried to ascertain the importance of different structure units. The research concentrated on investors and their preferences. The results are illustrated by the following figure:

According to figure 2, the emphasis on invisible assets could be identified. Therefore, a process, which starts to draw more attention on invisible assets in markets could be predicted. And the companies that are able to create a comprehensive and functioning intellectual capital system will have higher market values than the ones unable to give clear explanations concerning their invisible assets.

The theory of intellectual capital deals at the same time with two problems: what to do and how to put it into practice. By trying to create qualitatively something completely new while maintaining the development of the organisation, the theory of intellectual capital contributes to the growth of market value.

As mentioned previously the working environment will change. The intellectual capital hidden away in employee's brains will be used more and more. Therefore, the main manufacturing source will be "brainpower". We still may not conclude that the single hiring criteria in the future will be IQ. As we know there is no direct correlation between IQ and success in today's society. Therefore, a conflict between intelligence and effectiveness could be identified. "Anyone who has ever attended a Mensa meeting can see the fallacy of this idea. There is a big difference between smart and effective, and I'll take an effective person over a smart any day." (Rutledge, 1997).

That statement is also supported by a thought expressed in the press, that the quality of a primitive job would not improve if we hire some professors to do it. But if we take a closer look to the nature of intellectual capital, we should see that the apprehensions about overemphasising IQ are baseless. In the case of human capital the quality of work will be valued, assuming that there is much more hidden capital in an employee than we know today.
The conception of human capital includes the idea that motivates the employee to work and give his/her best. In most cases this is defined in the mission, creating the previously mentioned outer borders of the information society doughnut, at the same time allowing space for employee creativity.

Sharing includes the information flow between workers and the additional value arising from that. By acquiring new information about operations carried out in the company we are able to adjust our work in a way that could profit the whole company. At the same time, sharing contributes to previously

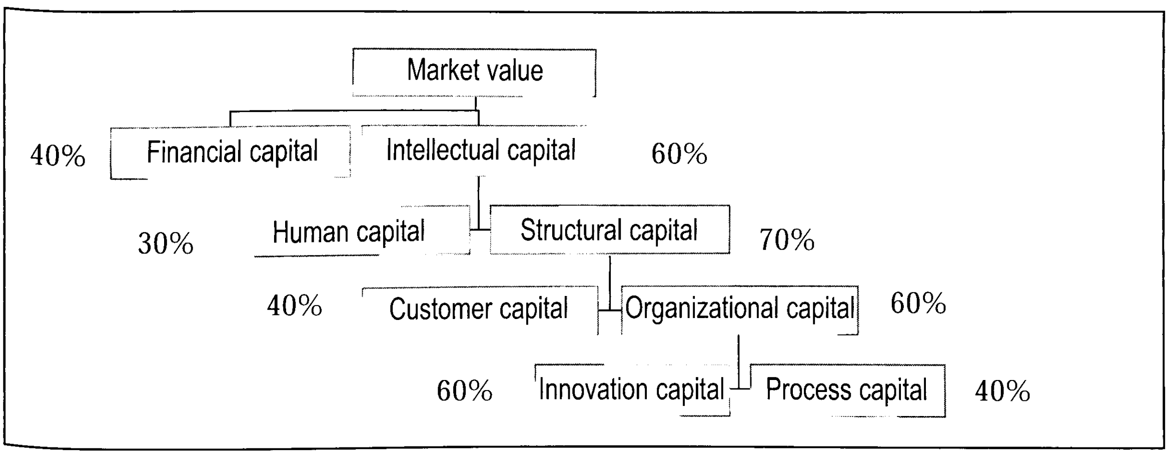

Figure 2. The importance of different areas of intellectual capital according to Skandia's survey. (Sööt, M. Intellektuaalne kapital ja selle juhtimine, 1998, MLP Baltic Eesti.)

mentioned components such as conception, management and risk development. Communication helps the employees to create a single picture of the company, which by itself contributes to a general conception, adaptation of management according to needs, and to the evaluation of risk.

The component community means the formation of one single group from different employees, which has its own culture including "shared values, beliefs and behavioural habits" (Schermerhorn, 1996). That point is directly connected with the general conception, which should build suitable ground for the creation of a culture. The formation of one single community could be considered a much harder task than defining the general conception. The conception mirrors only the general idea as the community consists of habits and behavioural rules, which have to be created artificially.

Until today, the main component of human capital has been the management. It deals with the creation and management of all the previously mentioned components. According to previously discussed changes, the nature of management will change but its importance will not disappear. Change will take place in commanding functions, which today already have more and more co-ordinating characteristics.

The important component is risking which will have more and more influence on a company's future. As we know, companies are generally divided into three groups: imitators, developers and revolutionaries. Risking is mainly connected with revolutionaries who try to find new ways and solutions for coming up with a new service or product for the market. Taking into account the tempo of accelerating development, more and more companies want to be revolutionaries in order to earn bigger profits and enforce new standards which force other companies to change their manufacturing process. And this brings us back to ethics as a success factor. How could an employee be motivated if s/he has no right to participate and has even lost the right to satisfaction.

If we come back to what was said previously, we must mention that the basis for successful use of human capital is motivating them to use their abilities at the workplace more effectively.

As understood, IC will play a big role in determining the success of a company. Since we are dealing with human beings, we can not always act rationally. Therefore, we have to let the concept of emotional competence help us to exploit the power of intellectual capital. An emotional competence is a learned capability-based on emotional intelligence that results in outstanding performance at work. At the heart of this competence are two abilities: empathy, which involves reading the feelings of others, and social skills, which allow handling those feelings artfully.

Emotional intelligence determines our potential for learning the practical skills that are based on its five elements: self-awareness, motivation, self-regulation, empathy, and adeptness in relationships. Goleman suggests, for example, that being good at serving customers is an emotional intelligence based on empathy. However, we need to remember that emotional intelligence itself does not guarantee our successful progress. A lot of things need to be learned in order to manage in different tasks. Thus emotional intelligence only means that we have an excellent potential to learn them. The study of conflicts in different companies in Estonia show that both managers and employees lack emotional competence based on emotional intelligence. As a result, there has arisen a great need for training in this area.

The most recent research of conflicts in Estonian companies was carried out in spring 2001. This research included 69 conflicts. The first purpose of the analysis was to check whether the situation has changed or not. The second purpose was to find the main areas in which managers should be trained. The result was disappointing since the main reasons for conflicts have not changed at all and remain poor organisation of work, lack of information and communication, incompetent management, no awareness of goals, lack of motivation and bad teamwork. The number of unsolved conflicts has even increased. This confirms our statement that Estonian leaders are lacking the knowledge and will to solve conflicts and understand the usefulness of a good and motivating work atmosphere. They do not realize that solving conflicts and assisting the employees will be beneficial to the company and thereby make a major contribution to a more positive environment at work which significantly improves the employees' motivation and loyalty and the company's market position.

Today, Estonian managers still tend to be more autocratic than democratic. They are not interested in their subordinates' problems and usually do not consider the opinions of their employees. They just want to make decisions by themselves and not let employees participate.

Much of the current situation could be improved by proper education and training. By educating and training managers it is possible to acknowledge the necessity of conflict resolution, to develop new skills and to improve the overall situation in the Estonian business environment. First and foremost, we need to change the current attitude, and teach the importance of other individuals.

As mentioned in the introduction we are in a modern jungle and maybe we will survive alone but for sure we will not succeed. Therefore, in acting ethically and giving our co-workers their rights back, we are not only acting ethically but we are also helping ourselves.

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The Necessity of Ethics in Business

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It is important to continually operate as model business citizens, consistently shaping business decisions to improve the quality of life in the communities where business is done.

Business ethics is the key to profits. If clients and customers don't trust you and your business ethics, they will not do business with you.
Business ethics has become a hot topic. There are often ethical conflicts between making money and doing what is right. There can be dilemmas about doing what is best for your employer, what's best for your own career, and doing what's best for the customer.
Business ethics is about negotiating these minefields.

Business ethics are built on personal ethics. There is no real separation between doing what is right in business, and playing fair, telling the truth and being ethical in your personal life.

Business ethics require integrity. Integrity refers to wholeness, reliability and consistency. Ethical businesses treat people with respect, honesty and integrity. They back up their promises, and they keep their commitments.
Business ethics require that you tell the truth. The days when a business could sell a defective product and hide behind the "buyer beware" defence are long gone. Truth in advertising is not only law, business ethics require it.
Business ethics do not happen in a vacuum. The clearer the company's plan for growth, stability, profits and service, the stronger its commitment to ethical business practices.

Business ethics are values-based. The law, and professional organisations, must produce written standards that are inflexible and universal. While they may talk about "ethics", these documents are usually prescriptive and refer to minimal standards. Ethics are about values, ideals and aspirations. Ethical businesses may not always live up to their ideals, but they are clear about their intent. Ethics are either central to the way a company functions, or they are not. The executives and managers either lead the way, or they communicate that cutting corners, deception and disrespect are acceptable.
Ethics is about the quality of our lives, the quality of our service, and ultimately, about the bottom line. Treating employees, customers, vendors and the public in an ethical, fair and open way is not only the right thing, in the long run, it's the only way to stay in business.

Nothing is more important for success than integrity. This begins with insisting on absolute quality for each and every product, and acting with a strong sense of accountability in everything the company does.
Building and nurturing our relationships with other people and the world around us is an essential part of any company's work. No matter how big or complex the business becomes, one must always demonstrate complete respect for each other. As the world becomes more interconnected recognition of each other's interdependence becomes even more essential.

Honesty and integrity have always been the cornerstone values of an ethical company. As company representatives, all employees have the responsibility to act in every situation according to the highest standards of ethical conduct.
Recognising that decisions about what is legal, ethical and right are not always easy to make, companies have developed ethical behaviour programs to assist employees with these decisions and related matters.
Under these programs, each associate has three important responsibilities:

- Being aware of and following the laws that each employee needs to know for his area of responsibility.
- Recognising improper or illegal conduct should it occur, and making it known to the appropriate company personnel.
- Cooperating with the company's efforts to investigate reports of improper or illegal conduct and its steps to address such conduct through appropriate corrective action.

Companies may have Codes of ethical behaviour which provide specific standards and guidelines to be followed by employees in the following areas of business conduct: accuracy and completeness of accounting records and reports; conflicts of interest; dealing with government officials and employees, company customers and suppliers; and political contributions.

An emotional competence is a learned capability based on emotional intelligence that results in outstanding performance at work. Our emotional intelligence determines our potential for learning the practical skills that are based on its five elements: self-awareness, motivation, self-regulation, empathy, and adeptness in relationships. Emotional competencies cluster into groups, each based on a common underlying emotional intelligence capacity. The underlying emotional intelligence capacities are vital if people are to successfully learn the competencies necessary to succeed in the workplace.

People with the competence to maintain integrity and take responsibility for personal performance and trustworthiness-

- act ethically and are above reproach
- build trust through their reliability and authenticity
- admit their own mistakes and confront unethical actions in others
- take tough, principled stands even if they are unpopular

Those who are conscientious-

- meet commitments and keep promises
- hold themselves accountable for meeting their objectives
- are organised and careful in their work

Credibility stems from integrity. Stars know that trustworthiness at work translates into letting people know one's values and principles, intentions and feelings, and acting in ways that are reliably consistent with them. They are forthright about their own mistakes, and confront others about their lapses. Those who never admit lapse or imperfection undermine their creditability.

Integrity – acting openly, honestly, and consistently – sets apart outstanding performers in jobs of every kind. Take those in sales roles that depend on the strength of ongoing relationships. In such a job, someone who hides crucial information, breaks promises, or fails to fulfil commitments, undermines the trust so vital for repeat business.

The Ethics Officers Association commissioned a survey of 1,300 workers at all levels in American companies, and what they found is startling: About half admitted to engaging in unethical practices. For the most part, breaches of trust or codes of morality were relatively minor, such as calling in sick when they want time off, or taking home supplies from the company cabinet. But 9 percent admitted lying or deceiving a customer, 6 percent falsified numbers in reports or documents, and 5 percent lied to superiors on serious matters or withheld critical information, 4 percent admitted to having taken credit for someone else's work or idea. Some of the breaches are extremely serious: 3 percent engaged in a copyright or software infringement, and 2 percent forged someone's name on a document. One percent reported false information when filing government forms, such as tax returns.

By contrast, a study of outstanding accounts at one of America's largest firms discovered that one distinction was a competence called "Courage". Some employees were willing to stand up to their clients and pressures at their own accounting firms and to risk losing an account, in order to insist that people do what was right. And the best accountants had the courage to speak up against even massive resistance to be sure the rules were followed – a stance requiring immense integrity and self-confidence.

In his article "What is `Business Ethics'? ", George Enderle discusses the relation between economics and ethics, an issue receiving increasing scrutiny in the current business ethics debate. He writes, "I advocate a model of cooperation, which recognises both disciplines as being interdependent and of equal value. Ethics should not dominate economics and economics should not overrule ethics; neither should the disciplines be kept completely separate from each other." (Enderle, What Is Business Ethics).

No matter how broad the concept of economics may be, how open economics is to ethics, and how many ethical problems economics broadly conceived might embrace, the key issue of the relation between economic and ethical value remains and poses a challenge: How should we treat their relationship? Value may be utility, meaning, or functionality. It may be found, experienced and enjoyed.

Economic value is affirmed economically in objects by subjects. Economic values such as efficiency, benefit, profits, richness, prosperity, wealth, and well-being are equally categories of economics. Unlike other kinds of value, economic value usually takes material products as its "carriers," and it can be measured or characterised in terms of money.

Ethical value is that which subjects affirm as moral in human behaviour or in products of spirit. Ethical values, such as honesty, loyalty, benevolence, justice, and good are categories of ethics. Like all other spiritual values, but unlike economic value, ethical value usually is "carried by" human behaviour or spiritual products. Economic value can be either with without ethical value. Therefore, to speak of economic value "with" ethical value does not deny economic value. Rather it stresses and affirms their interdependence. More core business ethics concepts can be found and created if we keep our eye on this all-important "with".

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Business Ethics and Financial Performance:

A Practical and Empirical Approach

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The relationship between business ethics and companies seems to be not as strange anymore as it was a couple of years ago. Nowadays, it's generally accepted that public companies have devoted a lot of time and money on implementing an ethical policy to-wards their different stakeholders: employees, the government, the society. Also in international literature, there's a growing quantity of publications studying the various topics related to business ethics and companies. Although this trend is not as new as it seems to be , there is still a growing need for models to screen a company on their ethical behaviour. With increasing attention towards good business ethics, this is perhaps one of the most important questions.

Towards a Practical Implementation of Business Ethics

For instance, is a company with a good environmental policy and a worse social policy, more ethical than a company with interesting, high-quality jobs but with violations of human rights as is common in some developing countries? Or can we only talk of good business ethics when both the environmental policy and the relations with the workforce are as they should be?

In order to resolve this problem, several screening organisations were set up on the international market, in order to provide ethical investment funds (funds that invest in companies with good business ethics) with advise on the business ethics of a company.

These organisations have one main goal: to determine whether a stock listed company (e.g. Cisco systems) is a profound example of a company with sound business ethics. International examples of such organisations working on this methodology of screening for good business ethics are Arese and Finansol (France), SAM (Switzerland), Triodos Research (Netherlands), Avanzi (Italy), Imug and Scoris (Germany), ... and the list is still growing year after year (Benijts, 2001). Also in Belgium Ethibel-Stock at stake NV is working on a specific method for screening stock listed companies on their business ethics.

Ethibel-Stock at stake NV is a corporate social responsibility research unit, based in Brussels and servicing the financial world on the level of ethical investing. Right from the start in 1992, Ethibel developed an in depth research methodology based on the principles of business ethics, sustainability and stakeholder economy. Ethibel measures and rates the ethical policy on 4 domains. The first one is the internal social policy domain, disclosing such issues as strategy, employment, job content, terms of employment, working conditions and industrial relations. The second domain is the environmental policy, making transparent the related strategy, environmental management and many indicators regarding productions and products.

The third domain reveals issues on public transparency, human rights issues, social investments, relations within developing countries and the eventual involvement in technologies or commercial practices that are subject to public controversy. Finally there is the economic policy, analysing the economic and innovation potential, the existence of internal control procedures, and relations to clients, shareholders, public authorities and the suppliers. In the view of Ethibel, a company can only claim good business ethics when its rating is above the rating of another company in the same sector on all these 4 domains. And when a company passes this 4-domain-test, the company is added to its ethical investment list. Examples of companies are Cisco Systems, AMD, The Body Shop, ING, Agfa Gevaert, ... Ethical investment funds investing in only stocks from this list, receive from Ethibel an ethical label. This label is a 'waterproof' that the investment fund invests only in state of the art companies as far as business ethics is concerned (Benijts, 2001) .

Business Ethics and Financial Performance

Although this model provides a solution to the question 'How can we measure the business ethics of a company?', in the end the most important question remains: Why should a company behave ethically? Although this question seems irrelevant to the public opinion and academics (it is common sense to demand good ethical behaviour from public companies), this isn't the case for the companies. Companies very often refer to the fact that a certain ethical policy increases the costs of a company and therefore puts the financial performance under pressure. Although this is a widespread prejudice, the empirical evidence strongly disagrees with this. Empirical data show that good business ethics is not often seen along with bad financial performance. Or in other words, companies with a good ethical policy do not perform worse than companies with a bad ethical policy. Even more, most of the international studies argue that companies with good business ethics perform even (slightly) better than companies with a bad ethical policy. A study of Coeckelbergh and Vermeir (1999) calculated the difference between an investment in a portfolio with companies of the Ethibel list (and thus good business ethics) and a classical benchmark MSCI Europe (a portfolio with stocks that were not screened on their ethical behaviour).

During the period 31/12/'98-31/08/'00 an investment in the first portfolio returned a superior yield in comparison with the benchmark: the first returned 27.8% annually, where the second portfolio yielded 22.8% on yearly basis. These findings were consistent with other international studies pointing out a positive correlation between business ethics and financial performance (Guerard (1997), Hamilton, Jo and Statman (1993), Statman (2000)).

Not only do the international studies show a positive correlation between business ethics and financial performance, but different studies also found a positive correlation between financial performance and other aspects of good business ethics such as good environmental policy, quality management and respect for the employees. The recent flood of studies pointing out a positive relation between these aspects of good business ethics and financial performance is overwhelming.

To some multinationals, implementing corporate environmental standards for operations in developing countries is not done. Use the lowest standards possible to reduce costs and increase profits, don't worry about whether it's ethical or not, seems to be their right way to behave. A study published in 'Management Science' refutes that strategy, stating that companies employing such practices decrease their own market value in the long run. Also another study from Glen Dowell, Stuart Hart and Bernard Yeung, entitled "Do Corporate Global Environmental Standards Create or Destroy Market Value?" confirms this. In their paper they write, "The evidence from our analysis indicates that positive market valuation is associated with the adoption of a single stringent environmental standard around the world." Paring down the list of firms in Standard and Poor's 500 Index, 89 mining and manufacturing companies with production operations in developing countries were chosen for analysis. Market value and environmental practice data from 1994 to 1997 served as the basis for the research. The environmental practices employed by the companies were broken down into three categories: strict internal environmental standards, less stringent U.S. standards, and lax local environmental standards. Surprisingly, in over half of the cases where environmental practices were measurable, the corporations applied strict internal standards. Host-country standards were chosen in less than 30 percent of the cases. After accounting for factors such as advertising and research and development, the researchers found that the market valuation of companies employing strict internal environmental standards (and so good business ethics) for their operations was significantly higher than companies using local standards. And just as noteworthy, the valuation of companies employing less stringent U.S. standards was determined to be nearly as low as the companies adopting host-country environmental standards. The reason for this higher valuation is that investors may be taking into consideration the risks and liabilities associated with environmental performance in assessing a company's value. Using lax local standards may be perceived as leading to future cleanup costs and bad publicity, both of which can lower profitability. Those companies also may be viewed as not being competitively positioned if local standards change as the economy grows.

A good environmental policy, as proof for sound business ethics, can make a difference to the share price, concluded the scientist. This was also confirmed by the findings of a 1997 North American study of share price movements. In the November/

December 1997 issue of the Ethical Investor, it was reported that academics Robert Klassen and Curtis McLaughlin had argued that winning an environmental award tends to boost the price of a company's share by 0.82 per cent. This while oil spills or other environmental disasters will be followed by a 1.5 per cent fall in the share price. Klassen's and McLaughlin's findings, which were initially published in the Journal 'Management Science', suggest that the losses on share value exceed the cost of cleaning up after a disaster although, of course, the lost share value does not come out of the company's coffers.

Also other aspects of good business ethics show a positive correlation with financial performance. A study by Waddock and Graves revealed that the overall company reputation for performance is rated more favourably when management practices result in better treatment of owners, strong employee relations and good product/customer relations. Other studies in the USA have also reached the conclusion that announcements of ethical failings can cause the share price of the corporation in question to fall by as much of 2.3 per cent.

Business Ethics and Public Opinion

Not only is good business ethics rewarded with good financial performance, but also public opinion pays a lot of attention towards the business ethics of a company. In a study carried out by the international edition of the Wall Street Journal, Americans were asked to evaluate nine corporate activities to determine how much influence each category had on their opinions of corporations as good citizens. The survey showed that a company's ethics and values was more important to those surveyed - 90%- than any other category of activity.

Following that, more than 80% thought the quality of a company's products and services was 'extremely important' and, following that, more than 70% put treatment of employees as important. The survey clearly showed the importance of good business ethics in a company according to public opinion.

Also European research showed that the public pays a lot of attention to the business ethics of a company when buying consumer goods. A recent survey carried out by CSR Europe in September 2000 of 12,000 Europeans revealed that 40% of European citizens appreciate good business ethics in companies. 70% of European consumers say that a company's commitment to social responsibility is important when buying a product or service, and 1 in 5 would be very willing to pay more for products that are socially and environmentally responsible.

The Government and Business Ethics: Examples From the UK and Belgium

And what about the government? The government can also play an important role in this debate. Personal research indicates that the government can stimulate good business politics without even giving a brief legal description of the concept (Benijts, 2000). An important example of active government policy towards business ethics can be found in the United Kingdom.

From 3 July 2000, pension fund trustees must disclose in their statement of investment principles (SIP) the extent (if at all) to which social, environmental and ethical considerations are taken into account in the selection, retention and realisation of investments and the policy (if any) directing the exercise of rights (including voting rights) attached to investments. (SRI). According to a survey, conducted by EIRIS and NOP solutions in June 1999, prior to the implementation of the SRI disclosure, pension funds were very keen on stimulating good business ethics in companies. Based on this new law (the first in the United Kingdom based on business ethics), UKSIF conducted a survey on the consequences of this new law. A letter was sent to the 500 largest UK pension funds and 97 local authority pension funds, requesting a copy of their SIP. Funds were also asked whether they wished their SIP to go into a public archive, and whether or not they wanted to remain anonymous in this report.

The main conclusions of the report where overwhelming: 59% of the funds are incorporating SRI principles into their investment process, either via the fund manager, or through engagement, or both. These funds represent 78% of the assets surveyed. 48% of funds have requested that their fund manager takes account of the financial implications of environmental, social and ethical concerns when investing, and this represents 69% of the assets surveyed. The survey also mentioned that larger pension funds are more likely to take this law into account than smaller funds.

So, the government made the debate on business ethics more widespread which led to a reallocation of funds towards companies with good business ethics rather than to companies with none or bad business ethics. Also on an individual basis, the results were overwhelming. British Telecom published in their statement of investment principles, a £29 billion scheme, that every investment manager of the Scheme should consider the following when selecting shares. '...a company run in the long term interests of its shareholders will need to manage effectively relationships with its employees, suppliers and customers, to behave ethically and to have regard for the environment and society as whole. The £20 billion Universities Scheme also announced in the same month that they would recruit one or two additional specialist staff in order to engage with companies failing to meet best practices on social, environmental and ethical issues. They have also published details of all their holdings on their web-site. This decision followed pressure from the campaign 'Ethics for Us' which is supported by over 3500 academics. The pensions fund of the Sainsbury's supermarket chain (listed on London Stock Exchange) was also an early supporter of the regulation. At the suggestion of the environment director of Sainsbury's, who is a trustee of the pension fund, it engages with companies on environmental issues (Shepherd , 2000).

Also in Belgium, the government has taken serious steps towards better business ethics. On 14 February 2001, the Belgian Minister for Social Affairs announced during his speech to the United Nations in New York, that he would take, on behalf of the Belgian government, similar steps towards pension funds. He argued in his speech that members of the European Union should take into account during the implementation of pension funds, not only financial but also social and ethical considerations. He also announced the first step of this process in Belgium by asking Belgian pension funds whether they take into account the social, environmental and ethical policies of companies they are willing to invest in.

Conclusion

With the increasing attention upon and importance of good business ethics in public companies, several international screening organisations have been born on the international market. They aim to determine by different models the level of ethical behaviour in stock listed companies..An interesting example is Ethibel-Stock at stake NV, a Belgian screening organisation, that developed a four domain stockholder based model. International literature is very clear on good business ethics: companies that behave ethically have a financial performance (measured on the stock price) comparable to companies with none or bad ethics policies. The government can also play an interesting role in this debate on business ethics. By obligating pension funds to reveal whether they take into account some ethical considerations, the different European governments (Belgium and the United Kingdom) can create a reallocation of capital in favour of sound ethical companies.

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Exploring Virtual Values

Estonia's Opportunities in the Global Competition of XXI Century

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"The future belongs to people who see possibilities before they become obvious" /Theodore Levitt/

Global Social Trends and Estonia's Prospects for the Future

In recent years there have been heated discussions about the "new economy" and Estonia's opportunities in the globalising world. Estonia has achieved a lot over the last ten years, no doubt about that. Our public and private sectors have been through remarkable structural changes, both economic and political. In the world-wide human development report for the year 2000, Estonia ranks 46 and is ahead of not only Lithuania (52) and Latvia (62), but also such countries as Croatia (49), Malaysia (61) and even Saudi Arabia (75).

Civiiised War in Business

Estonia and Estonians have reached a development stage where they draw more and more comparisons with Nordic Countries and disparity with their actual competitors, the Latvians and Lithuanians. Many Estonian politicians, as well as renowned representatives of the financial and economic elite tend to oversimplify the processes in which Estonia is involved. They firmly believe that we have reached the highway where the most appropriate method of control is to switch to autopilot. Many of us see it as a natural course of events and believe that economic and societal progress will continue by itself. As a matter of fact the way forward is not so well paved. Success in Estonian businesses over the next decade will increasingly depend on the ability of businessmen and leaders to realise the complexity of this task.

Technological growth has brought about a frantic evolutionary development of society. On the one hand, mankind has quickly split on the basis of new technological characteristics - information communities have emerged from changes in the type of information consumption, while on the other hand, we have this powerful globalisation of economies with ever-growing mutual international dependency due to the triumph of the efficiency of networking and subcontracting. **Based on the new mindset, business is becoming a civilised version of war waged between companies rather than states and nations.** In such a world only the businesses that are fit and "healthy" survive in the long term since the centre of gravity shifts from states to economic spaces and national values. More and more rational arguments are required to keep businesses and sectors of the economy going.

Useful Exchange is the Algorithm for Business

The world is rapidly returning to a huge village where the same ancient principles of mutually beneficial exchange, which ruled ancient Greece are at work. **Goods take increasingly less material form and move in the direction of short supply, contrary to money.** Consequently, the key to long-term competitiveness is a capability to create added value, which would allow Estonian companies to ask more for their goods and services than the capital flowing out. In global competition only an equal partnership and mutually beneficial exchanges will allow Estonia to avoid being drained of money and thereby secure national sustainability.

If Estonia and Estonian businesses are important, then why? What is our genuinely unique contribution to the new world-system? These are the key issues underlying Estonia's sustainability in general, yet there remains no common understanding. Are Estonians able to question whether they can make it or not? Are Estonians able to pose reasonable enough questions, and more importantly, do they have the spirit and wisdom to find the answers?

The Key to Competitiveness in Estonian Businesses

All Estonian businesses aim to improve the standard of living or quality of life for the citizens of the Republic of Estonia. Prosperous economy classically means high and growing economic productivity and, concurrently, high return on business investments. However, today productivity is only one measure of efficiency, mainly dominating commodity markets. Commodity markets will remain, no doubt, but their relevance in the structure of branches of the economy is bound to decrease. In the modern global economy productivity is understood as a quantitative output creating familiar things for mankind. **Therefore, the capability of Estonian businesses to "make it" depends increasingly on added value that buyers in global markets can measure and sense in reality and for which they are prepared to pay more.**

The criterion for the success of Estonian businesses cannot be their focusing on semiconductors, computers, information and gene technologies and other rendered important business areas. A company that is prosperous and successful may operate in any sector of the economy. How come, given the daily public discussion about the "new" and "old" economy?

The need to develop DVD, GSM, GPS, CD-ROM, e-mail and other new things grows and the "new economy" replaces old production models, which inevitably lose the competition and are likely to wither away.

The Illusion of the "New Economy"

The printing industry created by Johann Gutenberg in 1440 was probably not dubbed the "new industry", nor were the first cars constructed by Henry Ford in 1892, nor the first attempts made in the UK and USA in the 1930s to develop the television system we know today. And the dominating economic sectors back then were not called "old" by the new comers, although they could well have been.

Consequently, what determines a company's success is not only the economic sectors in which the company competes, but also how the company competes.

Develop Your Skills Rather Than Your Peculiarities

The Japanese are known and trusted for their technical innovations. The United States has assumed the role of the engine-room of information technology. Norway is famous for its shipping potential. Italy has for centuries been dictating trends in the footwear industry. Bulgaria is known and recognised by their famous wine industry. The Nordic Countries, led by Finland and Sweden, have realised their potential by pioneering in telecommunication.

Obviously, these and many other countries have discovered how to earn national wealth by doing things that are unique to them. They do both "new" and "old" things in such a unique way that this allows them to ask the price they need in order to guarantee their sustainability.

In order to build a prosperous and viable Estonian state, we have to stop discriminating between the "new" and "old" economies. What if all Estonian companies were orientated towards "Hi-Tech", or the domain of high technology. Estonia's competitiveness would be seriously in question. Estonian companies could very well succeed and prosper in tourism if they were able to raise the average expenditure per tourist from 700 to 3000 EEK per day. This could be achieved by offering the best experience in terms of safe and comfortable ferry, plane, bus and train connections, the best hotels, quality services, original attractions and entertainment, and by creating and disseminating a positive image of Estonia.

People have not changed in terms of their needs. **Technological development just allows people to satisfy their basic needs with new things.** Human needs start with physiological needs moving through to the need for recognition. If we only focus on one group of needs, say, those at superior levels that can be satisfied through high-tech achievements, we neglect the needs at the lower levels. Figuratively speaking, the Estonian would die of hunger or freeze to death, since no-one would produce or market bread, agricultural produce or everyday clothes any more.

So the hi-tech sector or gene technology alone cannot be the key to competitiveness for Estonian businesses and prosperity in Estonia. **Estonia's success depends on the ability of businessmen to understand the ongoing social processes and adapt to the environmental changes before other nations and businesses are able to do that.** If a company can, by means of know-how and new technologies, improve its production capacity, its competitiveness and wealth will grow anyway. Which means that Estonia's economic progress should directly arise from increases in innovation and entering markets of high value-added products where competitors are only able to produce after some time has passed.

The cornerstone of Estonia's wealth can be viable Estonian businesses regardless of who owns them. What matters is that they are located in Estonia. Who owns Nokia? The proper answer would be "the stock exchange", since Nokia's owners are all over the world. What matters here is the place where the added value is created and where business taxes are collected.

The Impact of International and Global Businesses on Estonia

A state cannot be rich, if there are poor companies operating on its territory. Which does not mean that we should start quickly importing rich businesses, although the world knows of such practice. For instance, Israel grants substantial tax incentives to companies that register their headquarters in the territory of Israel. The rationale behind such an economic policy is that **the state cannot afford inefficient companies in any sector of the economy, due to their negative effect on related sectors of the economy and, subsequently, individual companies, which are exposed through commodity or service markets.**

Consequently, the general potential of any state can be measured by the representation on its territory of trans-national companies or large companies that operate in various international markets. What do we have in Estonia? The company that privatised Eesti Kütus - Coastal Corporation (now E.O.S), Maersk, MTG, NRG, Elqotec and a few other really big players have been mentioned, but these companies won't do. Let us be honest and admit that the take-over process is irreversible, given global processes and their impact on Estonia. **Anything worthwhile will be bought up anyway!** It is just a matter of time and, paradoxically, this is to Estonia's advantage.

The future of Estonia's national wealth does not lie in leaving those companies which appear to be historical symbols of the Estonian State in the hands of Estonians. At the global level ownership of capital ceased to be the dominant measure of success for businesses and states after the 1990s. What matters today is the creation of new jobs (i.e. putting brain potential to its proper use) so that companies and the state as a whole can generate unique value-added products and services. **In the 21st century, the capitalist economic system is doomed to a shortage of intellectual power, which will bring the price of capital down.** Consequently, those businesses and states who are able to realign themselves rapidly and profoundly become winners.

The Threat of Short-sightedness

The majority of Estonian companies remain oriented to operational efficiency, trying to achieve the best result by seeking the correct and most efficient solution to problems. However, the day is nearing when companies and (even) the state must realise how short sighted such an approach is. In order to survive, it is not enough to do things correctly. More importantly, one must do the right things. **Nowadays, in order to survive, it is not enough that you stay in the game, you have to win the game.** A precondition for game-winning is the ability to distinguish between necessary and unnecessary activities, and only then do these necessary activities right. At present, the orientation of the majority of Estonian companies is towards doing many unnecessary things correctly. Because the world is changing so fast, they do not know where to run, so their effort is pointless. What is even worse is that these unnecessary things are often even done in the wrong way, due to a lack of the necessary qualifications.

Thus the success of a genuinely healthy and viable Estonian state and its businesses depends on doing the right things correctly. In order to be able to do this we must know where we are heading. What are our goals, tasks, our mission and our vision? Do we know what we are and what we want to become? If we do not, because the world around us changes at a speed that makes any planning appear pointless, the situation is bad yet not hopeless. This primarily demonstrates our ignorance, inability and lack of qualifications, all things which determination and perseverance can cure.

Estonia's Chances to Win This Big Game Boil Down to The Interoperability of Four Different Levels

Firstly, personnel, physical, scientific and technological infrastructures, capital, business information and rules of administration shall ensure our competitiveness, or our ability to stay in the game.

Secondly, the business environment, or the space where the game is played. If our economy can acquire the ability to "make it" it will need stimuli that motivate active investment in the Estonian economy. This concerns the attraction of the above mentioned trans-national businesses to Estonia, as well as investment in the so-called hard assets or physical assets. This also concerns the reinvestment of values created by the companies that are already here in order to increase the so-called soft assets such as know-how, experience, brands, development of international marketing networks, etc.

Thirdly, a global breakthrough assumes aggressive domestic competition. Brazil generates on average one new Formula 1 driver each year and this is mainly due to strong domestic competition. The overall number of Brazilian drivers can be counted in millions. The same principle applies to the economy. If Estonia is to find its Nokia (as the President of Estonia recommended), our sights should be turned to the business sectors with the strongest domestic competition. The experience of Italy, Bulgaria, Norway, and other countries referred to above, proves this logic. In order to become famous abroad, you have to be the most famous in your own country. It is because they are likely to be better than all others, that champions are sent to represent their state at sports competitions abroad.

Fourthly, I would like to point to the now often used yet unclear term "Cluster". Cluster means that in their pursuit of the same aim, institutions in private law and institutions in public law form a cluster to act jointly. In other words, inter-related business-oriented sectors of industry and public institutions assemble on one and the same territory to develop competitiveness in a certain field. The best practical examples of "clusters" include isolated and territorially restricted Iceland with its aluminium industry and Norway with its marine industry. These are both successful countries in global competition in spite of their high wage rates.

Ethical Aspects of Decision-Making

Mari Kooskora, Estonian Business School

Estonia has been in a transition period for over a decade already. We have managed to show the world that we are able to develop rapidly, to modernise our society, embrace the information era and change from state socialism to a market economy.

These changes require great changes in the business world resulting in the need for a new type of management, new kinds of managers and employees. As decision-making is one of the most important activities in a manager's job, it is clear that the changes also require a new approach to the decision-making process.

The decision-making process has moved to the lower levels, from the top-managers to all employees and has become a significant factor in a company's success in a rapidly developing and changing world. The theory of Intellectual Capital (Roos, Roos, 1997) stresses the importance of human resources and the actions of every employee in the overall success and competitiveness of the company. In the beginning of the new century we must state that the people of any organisation are its most valuable assets and their fair treatment is an opportunity to better motivate them and use their resource more effectively. Employees, their knowledge, skills and abilities play the most significant role in the company's success.

According to the Estonian Human Development report (1999), the working-age population of Estonia values above all the opportunity to make decisions and have responsibility in their work. Estonian employees would like to be autonomous, make their own decisions concerning the organisation of work and better performance.

Every day all of us have to make a number of decisions. What to do, where to go, with whom to be, what job to have, how to behave in certain circumstances, what to buy and how to pay, etc. Some decisions are easier and some even look too difficult to make.

Most of our decisions deal with our basic personal and occupational relationships and activities and they influence our own life and the lives of those closest to us – family, friends, and colleagues. Sometimes it seems to be that there are almost too many career choices and too many life choices ahead of us and at times we are even overwhelmed by the decisions we have to make about our jobs, our families, our businesses and our futures (Webber, 1998).

What is decision-making?

First of all, decision-making is making a choice. We must know how to choose when the possible variants seem to be almost equal or vice versa totally different, it means choosing one alternative from among several.

On the one hand decision-making is also a responsibility. In making decisions the decision-maker takes responsibility for the decisions he makes and his actions.

According to a different view decision-making is a means to an end. It entails identifying and choosing alternative solutions that lead to a desired state of affairs.

But most of all decision-making is a complex process. It includes several aspects and factors that influence the way people make decisions and choose one solution from among several.

When making decisions, a person is processing information through four channels, which deal with such things as facts, feelings, opinions and values. Each of these is very important and affects the way we make our decisions (Türnpuu, Virovere, 1999). These all play an important role in decision-making and are impacted upon by personal freedom, role, attitudes, experiences, cultural and organisational background and environment.

As individuals we may make decisions on the spur of the moment or after much thought and deliberation, or at some point between these two extremes. Our decisions may be influenced by emotions or reasoning or by a combination of both. Making the right decisions and using our emotions in the right way leads us to the theory of emotional intelligence, the ability to manage ourselves and our relationships effectively, to control our feelings and emotions (Coleman, 1993).

Individuals seldom make important decisions alone. As members of groups we may find ourselves making decisions on a group basis, where our own views and feelings have to be tested and argued with other members. In organisations, people with managerial roles are expected, among other things, to make decisions as an important part of their responsibilities (Cole, 1993).

Decision-making is one of the primary responsibilities of being a manager. The quality of a manager's decisions is important for two principal reasons. First, the quality of a manager's decisions directly affects his or her career opportunities, rewards, and job satisfaction. Second, managerial decisions contribute to the success or failure of an organisation.

Day by day managers and business leaders have to accomplish several functions and perform in different roles. These roles are connected to communication, information and decisions. The number of decisions the managers have to make daily is great and these decisions involve more than just one person or one family. The decisions managers have to make often influence the lives of many individuals, businesses and even the whole of society. These decisions have a long-lasting influence upon their own future and the future of others. As... "business is about results, but the familiar cost-benefit analysis in business only considers the corporate interest, whereas a moral approach includes the rights and benefits of others" (Harvey, 1994).

Nearly every business decision and activity inherently has a moral aspect or significance. Decision-making is a process which expresses how ethical we are. Ethical decision-making is a critical key to survival in the future. Ethics underline much of what happens in modern organisations and it is important to make the right decisions based on the right criteria at the right time. It is also important to increase understanding of organisational decision-making in general and ethical decision-making in particular. During decision-making we rely heavily on habits, common sense and our perceptions of custom. But "the dominant consideration is expediency – accomplishing our tasks, getting what we want, with as little hassle as possible" (Josephon, 1998).

Ethical decision-making has become a very important subject in the life of world business. Managers, academics and educators have realised the significance of involving ethical criteria in decision-making to guarantee the success of the organisation and the chances of staying in business for a long time. Ethics is a way to make choices about what is right and what is wrong, what is good and what is bad. To make these choices we need criteria. Business ethics means ethics in business; it includes principles and rules in the business world. In simple terms, business ethics comprises moral principles and standards that guide behaviour in the world of business. Whether a specifically required behaviour is right or wrong, ethical or unethical, is often determined by the public as embodied in the mass media, interest groups, and the legal system, as well as through an individual's personal morals and values. An ethical manager not only has to be able to rationally think through what is right, but also then has to be able to put that knowledge into successful practice within complex organisations with many competing interests and demands. During decision-making the managers cannot forget to consider the ethical aspects of decision-making. He or she has to be sure that the decisions are not made in an overly hasty manner, or without sufficient consideration of the subtleties of the problem.

Organisations, which institutionalise ethics, develop a culture based on ethical values and consistently display them in all their activities derive a number of positive benefits including improved top management control, increased productivity, avoidance of litigation and an enhanced image that attracts talent and the public's good will. Ethical behaviour usually has important positive consequences. Honesty in business dealings allows others to trust us and our organisation and makes us far more effective in our dealings with them. Indeed, business in general depends on the acceptance of rules and expectations, mutual trust and fairness. Ethical behaviour is good business.

Business ethics is about reflection on the nature and place of morality in business. Key concepts include rights, obligation, justice and fairness, good, virtue, responsibility, trust and so on. If we had to choose one key concept in business and management ethics in today's world it must be responsibility. People in organisations, especially managers, have moral responsibilities. These responsibilities go beyond the narrow formal definitions found in the job specification or organisational rulebook. They encompass moral demands to exercise imagination and empathy and anticipate things that might go wrong. In today's changed (business) world it is extremely important to add ethical criteria to decisions we make and allow employees to express their opinions and participate in the decision-making process. Only with ethical behaviour and ethical decisions can we count on long-term success and trusting partnerships.

The author of the article claims that in Estonia things have not changed much in this area. The main decision-makers are still managers and ethical principles are not considered important.

The wrong decisions and an ignorance of the need for ethical paradigms causes unpleasant consequences - failed businesses, deteriorated relationships, conflicts, etc. It is still very common for ethical criteria to be considered unimportant or even neglected altogether and this has often led to ethical conflicts. Often these conflicts occur when it is not clear which goals or values take precedence - those of the individual, the organisation, or society.Some past wrongful decisions by high profile officials in the form of unsuccessful acts of law or economic decisions cause many of the problems that we face today.

The unsuccessful and unethical business decisions in Estonia naturally have had unpleasant consequences, both material and moral. When a decision is made then the negative outcome will often overweigh the positive, creating confusion, unrest, material losses and disappointment for large groups of people. When the ethical aspects of all this are considered the situation becomes even worse. These kinds of practices have evolved, according to the opinion of the general public, because society is unethical, the government is corrupt and officials act only out of personal interest.

Studies conducted at EBS (see Kooskora, 2000) show that the main reason for conflicts in society and in companies lies with the decision-maker himself, his value judgements and morality. As the main goal in the Estonian business community is profit earning, then all of society is self-centred and driven only out of personal interest, which leaves no room for ethical considerations.

The author of the article finds that the reasons for wrong decisions and the unpleasant consequences are because people are influenced too much by the roles they take in concrete situations, by their previous experiences and the societal and organisational climate. Also they are not yet used to weighing up the consequences for others and predicting the results of their decisions and actions. Another reason for this is because in real business contexts in Estonia, people today do not feel totally free to make ethical decisions, despite their knowledge and even their willingness.

This can be proved by asking managers in our business community. But looking to the future, it would be even better to make a study of current business students who may become the future managers.

In order to study the decision-making process and how people solve ethical dilemmas at the workplace, the author conducted a survey among current university students at the Estonian Business School. The goal was to study how decisions are made, how personal and organisational values and assumptions influence people's decisions, and why the (business) decisions in Estonia are not ethical. The study also aimed to show that the level of ethics in decisions depends on the moral development of individuals, their values system and the specific situation, that during decision-making the general moral level of society (and the business community), status and roles have a destructive influence on an individual's decisions.

In the survey the students were asked to show their knowledge and understanding about business ethics, using ethical criteria in business decisions, and in analysing an ethical case. In the case study the students - as future managers, had to show their abilities and willingness to solve one ethical dilemma, which is very common in today's business environment. The results of the survey among students at EBS showed clearly that the decisions people make in business situations are very much affected by the social environment, organisational climate, company culture, leadership styles and managerial roles. And also by the attitudes and opinions the person has and by the attitudes and opinions he thinks are appropriate in the eyes of society and the organisation.

The students who took part in the survey were influenced by the roles they took and by their practical experiences in business. They did not feel free to make the decisions they would like (more ethical decisions than they actually presented), arriving at decisions they would have had to make in real business situations, considering the society, corporate culture, management styles and organisational climate. The results showed that almost all respondents found this to be an important ethical issue. The author divided the students into groups according to gender, program and specialisation and found significant differences in the answers of different student groups, among the stationary and evening students, but the difference between gender was not as big as the author supposed it would be.

A division of stationary students into three groups according to their specialisation: management, accounting and public administration showed significant differences.

The management and public administration students made their decisions similarly, the most important aspects being the consideration of rights and obligations towards both employers and employees, accounting students focused more on personal and relative factors. According to all the results the students found that rights and obligations towards the employers were important factors in this case. Comparing the results according to gender showed that the most important factors influencing decision-making by all students were almost the same. Women mostly focused on rights and obligations towards the employees (first position) and men thought this factor almost as important (second position). Similarly the second factor among women was relative corporate aspects, which men placed first. Differences appeared with the third most important factor, for female students it was relative individual factors – some women mentioned that they would act differently, if they had children at home, that they had to think about their welfare also. But this same factor was the least important for male students. Male students placed ethical egoistic factors in third place and the same factor was least important among female students.

Decision-making is an intricate process. When changing from one chair to another and taking on a different role, people often forget the other side, the other person, their feelings and emotions, and the decisions they make are very much affected by previous experiences and attitudes in concrete situations.

Finally the author wants to point out some critical aspects for company managers to keep in mind. To ensure higher standards in the future they must pay attention to the following:

- All key-employees should be involved in the process of strategic decision-making.
- Employees should be notified about changes in advance and they should be given opportunity to express their views.
- Managers should hold specific job satisfaction discussions with their employees to get information about existing problems.
- Employees should get feedback on their work results. Without feedback an employee is unable to assess his/her level of success which is an essential component of job satisfaction.
- Developing people's morality through education and training is important in order to reach a stage where honesty and other moral characteristics do not depend on concrete situations. To assure that honesty won't be situational any more.

To be and stay competitive in business one has to remember that the better his/her reputation regarding integrity, honesty, and decency the better his/her chances of success will be in the long run.
The key to managerial ethics is the development of individuals so that, ideally, they will possess the moral attributes required for the comprehension, appreciation and handling of ethical issues and dilemmas. This means emphasising the human potential for individual moral judgement, rather than any need for enforced organisational rules or codes. People are developing morally and this moral development is a life-long process.

The author finds that continued research concerning decision-making and the consequences of right or wrong decisions in the Estonian business community would be worthwhile for an improved understanding of the importance of including ethical criteria in the decision-making process.

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Computer Ethics: Privacy and Securlty in the Era of Information Technology

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Today there is a rather lively discussion going on concerning the role of ethics and morality in society. This discussion has especially concerned the ethical problems in research, politics and information. In the last decade there has been discussions about an additional field of ethics – the field of ethics in computer and information technology.

Why do we need computer ethics? An old maxim says that information is power. This is becoming more and more pertinent in our modern information society. Marketing forces have realised the opportunities offered by virtual reality, with the result that networks are becoming increasingly important business and marketing media. But their success has come at a price: it seems that in the middle of all this technical development, ethics and human values have been largely forgotten. Even legislation lags behind the demands of the real world. There is a sense that moral and ethical values are not important. There is no standardisation in technology on the web, so why do we expect standardisation in behaviour? And the consequences are there for everyone to see: computer crime and misuse is rapidly on the rise.

On the positive side, it should be pointed out that computer ethics issues are starting to be noticed and interest is broadening gradually. Computer ethics is one of the most essential areas in applied ethics. A new ethical theory is needed to meet the challenges posed by problems like the lack of laws and security and the fact that technical knowledge and hardware will constantly increase.

The scope of my thesis was limited to discussing the extent and complexity of only a few themes and issues. At this point, I would like to state that there are several other relevant areas here that need to be studied and discussed, but they fall outside the scope of this thesis.

I handled the overall need for computer ethics, including the main characteristics of the current situation and traditional ethical theories which have managed to hold their place over many centuries. Does the new economy bring new ethics? How different are these rules from the traditional ones?

But as our world and societies are becoming more and more global and interactive, we cannot leave the need for new morality unattended. Computers, the Internet and other fields of Information Technology put us in a situation where we must decide whether our world should move on without any restrictions at all or do we need some kind of limits in order to survive. My opinion is that there is a very definite need for rules, standards and legislation. And we should create them before these new opportunities become unmanageable. It is quite apparent that there should be clear rules and regulations concerning cyberspace. Therefore my hypotheses are: "Victimless" crimes are no more acceptable than crimes with human victims.

Hacking, cracking, selling databases, etc. are crime equivalents. No hacker can be seen as a guardian of civil liberties.

Individuals whose information is stored in a computer database are entitled to protection. The level of protection should depend on the data stored.
Computer users, professionals and other stakeholders need to be bound by a code of conduct. The code of conduct should be bound by legislation and there should be common rules despite the differences in culture, religion, occupation, etc.

Throughout the history of the Internet many of us have used the terms of biology to compare the development of the Internet with the evolution of Earth. Now many legal experts, journalists and just plain civilians tend to use metaphors from literature when bemoaning the loss of privacy created by the rise of computerised databases which track an individual's every move in cyberspace. One most commonly used phrase is "big brother" from George Orwell's novel "1984". A better guide to modern life in cyberspace is Franz Kafka's "The Trial", it explains better the texture and feel of the privacy problems today and can be described as a kind of absurd odyssey. Kafka's main idea is that you are trapped in a maze, an unseen bureaucracy that has information about you and you have no control over the use of that information.

The main problems at the moment are:

- the public in general has not realised the importance of computer ethics in society, the value of ethics and IT security;
- there is a lack of an appropriate theoretical background;
- there is a lack of laws, standards, knowledge on the local level as well on the global level

Why do we need new ethical theories? Why are the traditional theories not suitable?

Ethical discussion of computer ethics requires a certain level of emotional development and far-ranging knowledge. Computer ethical issues often press us to clarify our values, priorities and ideals in new ways. In this respect, the study of computer ethics turns out to be the study of human beings and society – our goals and values, our norms of behaviour, the ways we organise ourselves and assign rights and responsibilities. The above-mentioned broad knowledge must include technical knowledge that is necessary in order to understand these issues and their significance.

Computer ethics could be defined as moral philosophy, morals (codes) or normative ethics and ethical dilemmas concerning areas of information technology. It includes all methods, theories and approaches necessary to find the best solutions to computer ethics problems by a systematic application of know-how in decision-making situations. If there were only a limited number of machines, kept under very tight control, there would be neither computer ethics nor any need for it.

Since the topic is quite new, the philosophical foundation of computer ethics has not been the subject of comprehensive discussions. Therefore we have many controversial opinions and standpoints that don't (yet) offer a clear vision.

The inescapable interdisciplinary nature of computer ethics has certainly done the greatest harm to the prospects for recognition of its philosophical significance. Computer ethics involves too many crossroads including technical matters, moral and legal issues, social and political problems and philosophical analyses to be anyone's one game.

Computer ethics shares with other philosophical disciplines in the analytic tradition three important but rather general features: it is logically argumentative, with a bias for analytical reasoning; it is empirically grounded, with a bias for scenarios analysis; it endorses a problem solving approach. Besides these, computer ethics also presents a more peculiar aspect, which has so far acted as its driving force, namely: it is intrinsically decision-making oriented and it is based on case studies.

The development of ethical theories provides a useful perspective from which to interpret the nature of computer ethics more accurately. If one tries to pinpoint exactly one common feature that so many case-based studies in computer ethics share, it seems reasonable to conclude that there is an overriding interest in the fate and welfare of the action-receiver, the information. Despite its immediate decision-making approach and its obvious social concerns, computer ethics is never primarily interested in the moral value of the actions in question. Instead, computer ethics develops its analyses, and attempts to indicate the best course of action. Right and wrong in computer ethics don't just qualify actions in themselves; they essentially refer to what is eventually better or worse for the infosphere. Therefore, computer ethics is primarily, in contrast to traditional theories, an ethics of being rather than conduct or becoming.

The problems with computers and communications technology can be viewed in terms of scope, pervasiveness and complexity. First, information technology enables enormous quantities of information to be stored, retrieved and transmitted at great speed on a scale not possible before. This is all very well, but it has serious implications for data security and personal privacy because computers are basically insecure. Second, information technology is permeating almost every aspect of our lives, including many areas previously untouched by technology. But unlike other pervasive technologies like electricity, television and the motor car, computers are on the whole less reliable and less predictable in their behaviour. Third, computer systems are often incredibly complex – so complex, in fact, that even their creators do not always understand them. This often makes them completely unmanageable.

Let's take a look at the cases I used to outline our major concerns in the field of computer ethics and to show what needs to be done. I will give a short overview of the impact databases and computer-based information of all kinds can have on the quality of our lives. Sometimes it demonstrates the considerable faith we place in computer-based records – a faith that may be unjustified – and shows some of the dangers for individuals when records are inadequate for the purposes for which they were designed.

One example used in my theses is concerned with the worth and validity of data compared to information and it is one of the greatest dangers associated with technology.

Second topic – how can we know that only legitimate users are accessing the databases? How can we make sure that information gathered is used only for the right purposes (not for harming us but to secure us)?

Third and fourth case showed that we couldn't trust the creators of our databases (inside assistance) nor our vendors of software (update agents and cookies). Of course, the most serious concern is hacking (Washington medical centre, Tõnu Samuel & Eesti Telefon), but hacking can also have some positive sides (although it cannot be used as an excuse) as in the case of the Sotsiaalministeerium who kept an illegal register of abortions. The final example used in my thesis concerned privacy policies of e-commerce and other companies. Can our vendors change their privacy policies whenever they feel like it and after that sell their customers' data to marketing institutions?
Although there are other similar striking cases available, I think that the above-mentioned cases provide a sufficient background to point out the immediate needs in the field of computer ethics.

In my thesis I pointed out the possibilities to improve the current situation on three levels: the level of society, businesses and organisations and the level of individuals. All three levels are important; dealing with just one is not the right choice.

At the level of society, the key issues are a new legal framework, standards and education. The current legal framework is not suitable any more because
- it languishes in the dark ages of real locks and doors;
- local community standards and laws couldn't be applied any more since the web and Internet are global

The mission of computer ethics should include the provision of persuasive arguments for global legislation.

The creation of a special cyberlaw should be among the most vital legal aspects. It should cover topics such as:
- who owns the information in databases
- what should be regarded as criminal behaviour
- what data can be stored in the databases and how should or could it be protected
- has anyone the right to know how, why and for what purposes data about them is collected and used
- what do we mean by harm and how can we measure it (information is usually still there, does then only the alteration of data count as harm?)
- etc.

But no amount of legislation can be of real use unless it has some penalties and restrictions attached. There is no reason why electronically committed crimes should be treated differently from physical crimes. Hacking and selling databases are serious crimes that cannot be justified under any circumstances. No hacker can be regarded as the guardian of our civil liberties.

Second, we should reach a level of global jurisdiction. For instance, we cannot compare the legal basis of information privacy in the United States with that in Europe. The European Union favours strong personal data privacy rights while the United States government favours a relatively unfettered market in personal data. That means that in Europe, companies are not allowed to sell customers' names and other personal data without the customers' permission, but in the United States selling data without permission is legal and commonly done.

According to the report by McConnell International, international cybercrimes may be impossible to prosecute, as most countries have yet to update their laws to deal with computer-related offences. Only 9 of the 52 countries covered had legislation covering most types of cyber crime, while 33 countries had no laws to deal with the problem. Of the remaining countries, 10 had updated their laws to deal with five or less computer-related crimes.

Estonia seems to be a forerunner in the area. Estonia is one of the first countries in the world that allows an income-tax return to be submitted on the Internet and whose government sittings find place-electronically. Estonia has accepted the following laws in the field of information technology:

1) Databases Act (passed 12.03.1997, entered in force 19.04.1997);
2) Personal Data Protection Act (passed 12.06.1996, entered in force 19.07.1996);
3) Digital Signatures Act (passed 08.03.2000, entered in force 15.12.2000, amended by the following Act on 15.11.2000 which entered in force 01.01.2001);
4) Other acts and legislation issued about different registries and archives.

Standards. Because of the youth of the network economy, we haven't given much attention to the creation, development and implementation of standards. Despite this, we should try to monitor the process because once implemented, successful standards tend to be valid forever. Standards are those that will model our behaviour and effective standards are accepted voluntarily. The Internet and web are containing toolbar-like standards that will model our behaviour invisibly. We have our ideas and views about ownership, availability, privacy and identity and all these have been shaped by HTML, TCP/IP and other tools. Technical standards will become in the long run as important as legislation. Laws are codified social standards but in the future the codified technical standards will have as important a role as the laws.

But standards don't define only technology. They will specify such immaterial and vague phenomena as options, relations and trust. They are social instruments. They will create a social territory.

Education. Computer ethics education has to be developed in parallel with technical education, using ethical codes, codes of conduct, the persuasion strategy and open discussions. Computer ethics education should include:

- a full coverage of the whole area
- an explanation of information security problems and needs
- an explanation of the global quality of networks and the disruptive potential of every single misuser
- an understanding of the importance of ethics and of the lack of laws in the computer/information technology area
- methods of fighting the human factor
- methods of making people aware of the ethical impact of their actions
- developing an ability to act ethically, discuss ethics and make decisions based on a high ethical standard
- increasing the ability of professionals and educators to disseminate information and provide education
- etc.

The education should not concern only computer professionals but also other computer users as they have a significant part in the new system created by professionals.

When we take a look at the level of businesses, then it is clear that companies are not authorised to change laws. Nowadays a mission statement of a company is not enough because a mission statement states only what you do, but a code of ethics states how you do it. The latter is becoming more and more important in order to survive. Thus, the creation and implementation of a code of conduct could help make global cyberspace safer and more ethical.

The code of conduct should define accepted and acceptable behaviours in the organisation. Nowadays a code of conduct should definitely contain a special section about computer-related issues like authorised access to the company network, using passwords, using information on the company's databases, e-mail, surfing on the web, etc.

One problem at the individual level is that the computer profession does not have professional status like medicine or law. Nowadays all professions are using computers and IT-possibilities and this fact is the main source of the problems we are facing.

Therefore especially computer professionals should try to create a personal code of ethics by analysing different pressures, their knowledge, personal values, responsibilities to different stakeholders, etc. Computer professionals are projecting an image of their profession and the company they represent to the general public. They shouldn't forget the fact that what is unethical at home, is unethical at work.

The Importance of Investor Relatlons In the Overall Welfare of an Organisation

Kati Aru, Reval Hotel Group Ltd

Investor relations are gaining importance in the financial and non-financial communications thrust of companies. Shareholders have become more vocal and demanding, thus, the need for a more visible investor relations function. Companies want somebody who can represent the company credibly in investor relations and give feedback on behalf of the company.

What actions and efforts must be made in investor relations, in order to guarantee an organisation's welfare? Within the context of the welfare of the organisation it is the investors who secure the capital needed to keep the organisation in existence and enable the organisation to develop and launch their goods and services.

Introduction

Based on the theory of organisational behaviour, there is an internal environment and an external environment of an organisation. Most business organisations gain their capital from the external environment. For example, public limited companies raise the necessary capital by selling company shares and investors who buy these shares become shareholders in the company. Among other instances, the participants of the external environment of an organisation are individual investors, institutional investors, financial institutions, government institutions, creditors, analysts and the financial press – together they form the investment community. An organisation must find a way of communicating credibly and continuously with that community, in order to keep capital assets in the company.

Stockhoider-Manager Conflicts

Separating the ownership and management functions gives corporations access to a much larger pool of capital than is available to most sole proprietorships or partnerships. The closest and most trustworthy relationship should be between the managers and the owners or shareholders and investors in the company. Still, conflict arises in the manager – shareholder relationship. Economists call the conflicts arising from such shareholder – manager relationships "agency problems". (Byrd, et al, 1998).

There is a strong argument that less managerial ownership implies a lower incentive to work as hard as the shareholders prefer and, therefore, greater potential losses in shareholder value. Managers may also reject attractive projects if they appear unprofitable to the capital markets initially because the managers fear being replaced through a disciplinary take-over. Investors are well diversified, managers are not. A large portion of their wealth is typically tied to the success of the firm for which they work. Managers, who may lose a lot when a firm becomes distressed but benefit relatively little on the upside, tend to prefer less risk than shareholders. One type of misunderstanding between managers and shareholders can result from the misuse or personal consumption of corporate assets by managers. If carried too far, consumption of perks can destroy shareholder value as corporate assets shift from productive to unproductive uses.

Defining Investor Relations

Investor relations is defined as a strategic corporate marketing activity combining the disciplines of communication and finance that provides present and potential investors with an accurate portrayal of a company's performance and prospects. Investor relations practice is the planned and sustained effort to establish and maintain goodwill and mutual understanding between an organisation and the investment community, (National Investor Relations Institute, 1998). Investor relations has been an important part of public relations, but it is comparatively recently that it has become recognised as a separate entity. After ten-fifteen years of development, companies now include investor relations as an integral part of their corporate strategy (Black, 1992).

Nearly all investor relations are formed out of public relations activities – arranging various meetings for investment participants, providing strategic counselling, implementing disclosure policy, guiding the management in financial communications, developing investor relations messages and communicating with the investment environment.

As almost every company has a PR-program, it should also have an IR-program – an investor relations program. At the beginning of each fiscal year, the investor relations executive should present to senior management and the board, the company IR-program, outlining proposed events for the year and reflecting the company's goals and strategies (Johnson, 1994).

The Role of Investor Relations Officer

In an effort to better understand the role of an investor relations officer, numerous issues surrounding the role and responsibilities of investor relations officers should be analysed.

Although investor relations consistently rank as a top concern among executives, there doesn't appear to be much consensus on how this function is best handled. According to the survey conducted in 1998 by Bishop's University in Canada, investor relations officers should be adequately trained - they must know how institutional money is invested and understand how capital is raised and they should possess a sound in-depth knowledge of their employer's operations. One other result of this survey was, that neither investment professionals nor corporate executives think investor relations officers are effective, do a good job or that the right people have been chosen to fulfil the task (Barlow, 1998).

To be effective, the investor relations officer has a "need to know" and, therefore, must have full access to senior management and, preferably, be a part of senior management (National Investor Relations Institute, 1998). Equipped with information and resources, board members can be ideal representatives for a company. The board can offer a more positive public face, framing issues objectively and launching settlement proposals. The task of ensuring that a listed company is communicating effectively with its shareholders and with key audiences is one of the most important responsibilities of senior management. In most cases, the chairman, chief executive and finance director will find themselves the natural focus for this responsibility because understandably, fund managers, analysts and financial journalists expect to hear the message from the top.

Disclosure and Communication

The integrity of financial markets is based on full and fair disclosure of information. The task of ensuring that a quoted company is communicating effectively with its shareholders and with key audiences is one of the most important responsibilities of senior management and therefore companies need a corporate disclosure policy. Investors, who have money in shares, are interested in information and it is every company's duty to provide that information through as many channels as possible.

Among other channels, Internet web sites are gaining more and more popularity. Investors expect up-to-the-minute information and web-sites are an invaluable tool for keeping investors up-to-date. This is especially true for individual investors who are never going to get a one-on-one meeting with the chief executive officer.

One specific target audience of investor relations is analysts. Analysts look for answers. How did the numbers come to be and will they change over time or is there something that the numbers leave out? It requires patience from investor relations people in order to deal with tough analysts. But this patience pays off, because it all comes down to building and maintaining strong relationships with analysts that do not falter when times are bad.

The Status of Investor Relations in Estonia

The status of investor relations in Estonian companies is a bit confusing. On the one hand, companies acknowledge the importance of investor relations, while on the other, they have not made investor relations a part of their strategic planning. The investor relations officer position and the corresponding responsibilities of that person, are still at the development stage in Estonia.

After Estonian independence in 1991, the re-creation of a securities market started in Estonia and on May 31,1996 the Tallinn Stock Exchange (TSE) was opened for trading with eleven securities listed. Today, the TSE operates with twenty securities. Unfortunately it is nothing compared to Wall Street, Toronto or London, in terms of securities listed or trading statistics. In spite of the smallness of the Exchange, existing listed companies must act appropriately as public companies.

A Survey of Listed Companies on the TSE

The author conducted a survey of eleven listed companies on the TSE. The main conclusions of this survey were as follows:

- Investor relations officer's responsibilities are carried out by chief executive officers, chief financial officers, public relations officers or by the entire management board. It is similar to the US and Canada, in that people in the same positions handle this function.
- At best, the IR-program is a part of the company's PR-program, only two companies consider their IR-program important enough to be in their strategic planning.
- Listed companies follow the TSE Requirement for Issuers, which is the main part of their disclosure policy. Besides that, news and announcements are usually available on the company's homepage.
- There are two different groups of firms – active and passive investor incentive providers. Passive ones seldom do press conferences and do not pay attention to regular and continuous meetings. Active ones, on the other hand, try to keep a close relationship with shareholders, investment funds, brokerage firms, creditors, analysts and the media. By arranging separate meetings for different investors and attending road-shows they maintain their relationship with the investment community.
- Most of the firms analysed try to keep the owner's and company's welfare in balance, by making decisions for the good of both sides.
- Four companies declared that they do not like owner's interfering in the operational management (except managers with ownership). If the members of the supervisory board interfere with the managers daily operations, it usually disturbs the working process.
- The general condition of company web sites was pretty good. Still, some companies are a long way ahead and some must make serious efforts to keep up with the better ones. On thorough web sites investor relations is equally presented with other issues.

Opinions of Two Investment Professionals

In order to gain another opinion two investment professionals were interviewed by the author. Shareholder expectations toward the company and the decision making process was discussed with Andres Viisemann from Lôhmus, Haavel & Viisemann AS. Aadu Oja as a fund manager in Trigon Investment also explained on what basis he decides whether or not to include a company in an investment portfolio.It turned out, that they pay attention to the same key factors and described investor relations in Estonian companies similarly. The first impression of any company comes from their financial reports and key ratios and how clearly and equally interpreted the figures are. They both value transparent companies, which usually also have a higher market value. For them, it also diminishes any possible risk towards the company.

The manager's ability to explain strategic goals, projections or growth potential is highly appreciated among investment professionals. An important factor is whether the CEO and other board members own any company stocks or not, this will influence decision-making and company performance. Managers with ownership consider their decisions carefully, because they have their own capital at stake. When the manager is without any ownership, all that matters is their salary, bonuses and status.

From the shareholders and fund manager's point of view, the work of analysts is a helpful information source. The work of analysts is an important tool to show the risk factor compared to other companies in the same sector. Investment funds have a whole team of analysts who analyse the activities of the companies in which they have invested. In general, Viisemann as well as Oja think analysts are positive rather than negative in their research. Viisemann adds, that the research work conducted by bank analysts tends to carry more weight than others.

According to Viisemann, the low number of investor events in Estonia, especially for private investors, is due to the small market capacity, the lack of any necessity to compete over investors and the lack of a share-culture in Estonia. Fund managers tend to invite a fund's core investors together quarterly, in order to present the market situation and trends in the investment region and neighbouring countries and comment upon any economic and/or political news that is relevant.

The investor relations officer(IRO) position is rather new in Estonia. First, the IRO position requires lots of financial and communication experience gained through many years. Second, it takes time to build up good relations with the investment community, before an IRO is approved as a spokesperson for the company.

Final conclusions

- It is important for the company to communicate credibly and continuously with the investment community in order to keep capital assets in the company.
- Despite many efforts, conflicts arise in manager–shareholder relationships, therefore managers and owners of the company should try to stay in their environments and authorities.
- More managerial ownership implies higher incentives to work as hard as shareholders like.
- Investor relations influence the organisation's well-being and it is crucial to have an investor relations program as a part of strategic planning.
- The IRO position requires lots of financial and communication experience gained through many years. It takes time to build up good relations with the investment community, before an IRO is approved as a spokesperson of the company – opinion of two investment professionals in Estonia
- The status of investor relations in Estonian companies is a bit confusing. On the one hand, companies acknowledge the importance of investor relations. On the other hand, companies are still not making investor relations a part of their strategic planning.
- The investor relations officer position and corresponding responsibilities of that person are still at the development stage in Estonia, but the investor relations function is mostly handled by the management board and the PR-manager of the company.

In summary, there are obvious proofs that investor relations can influence an organisation's welfare and it is quite clear that an investor relations program should be part of the strategic planning.

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The Successful Integration of the Internal Marketing Concept into the Organisational Culture of a Company

Jaana Liigand

Introduction

The author of this Bachelor Thesis has investigated the possibilities of improving the relationships between employers and employees in order to affect an increase in the overall performance of the company. Accordingly a thorough study of the theories of Emotional and Intellectual Capital, Knowledge Management and Internal Marketing as well as research concerning conflicts in Estonian companies was carried out. Those theories as well as the results of the research are described in this thesis. Both the theories and the results of the research show that if a company treats its employees as internal clients and takes good care of their needs it leads to the overall satisfaction and success of every member of that organisation. The proposed solution involves treating employees as the internal customers of that company and applying to them the rules of traditional marketing.

There are millions of rules for dealing with the external customer and marketing departments in most companies master them well. The customer is treated with respect, considered of vital importance to the company and allowed to make important decisions. The same kind of marketing effort should be directed to the internal customers as well if we want them to stay with us and be our loyal "first clients".

Practical actions and the inevitable change in paradigms are discussed in this thesis in order to find solutions for implementing Internal Marketing concepts as part of organisational culture. In this thesis the main question for the manager is – where to begin making the employee feel special and important in a busy work scene often marred with conflict.

Conflict is something that is not welcome in a company's internal climate but at the same time it is inevitable. Several authors in the book "Using Conflicts in Organisations" claim that conflicts can enhance individual achievement, the quality of group decision making and the productivity in organisations. Conflicts can bring underlying issues out into the open, sharpen a person's insights into interests and goals and pave the way for more optimal integration of seemingly opposing interests. Managing through conflict can be used to create a better environment inside the company but only when the conflicts get solved. (De Dreu, C., Van De Vliert, E. (ed.) 1997)

Internal Marketing is about solving conflicts and building trust. Only trust can bring success by increased motivation and self-control. Trust is the right to make mistakes and be allowed to correct them, not be punished for them. The company is like one big family where everybody is equally important and valued, both the managers and the employees. If there is no trust conflicts will remain unsolved. Every unsolved conflict brings along a new wave of mistrust and it forms an ongoing circle that is hard to break. All that requires a serious change in thinking and a lot of training, too. To illustrate the process of change better, an example training program for managers is given at the end of this paper.

Kevin Thomson says that if you want to change your company's culture you have to start with your climate first. Climate is what organisational members experience, culture is what the organisation values. Climate is formed by appropriate communication processes and organisational language - what people talk about and what they say. When these two components work together then a sustained change in culture takes place. Culture is a result of changing the way you do things. (Thomson, K., 1998)

In his book "Emotional Capital" Kevin Thomson describes a new kind of contract – the emotional contract between the employee and the company. If traditionally employees were expected to be loyal and committed to the organisation in return for fair pay, career prospects and job security then these days it has disappeared. It has been replaced by a new contract based on continuous learning and changing identities - employees are expected to take charge of their careers. (Thomson, K., 1998)

Success and profitability in today's organisations do not only depend on financial capital. More emphasis is placed upon the management and development of the intellectual capital of the organisation. The quality of the intellectual capital - that is a company's structural and human resources capital - is what influences the current situation of any organisation and more importantly helps to shape their future. An organisation's vitality and ability to compete on the ever-changing market depends on the organisations intelligence and will to use its inner hidden potential.

Managing knowledge is made possible by the existence of intellectual capital and emotional capital and Internal Marketing within the organisation. Without those assets it is impossible to survive in modern times. But both intellectual and emotional capital are intangible, difficult to measure and very hard to manage.

We will also have to admit that not all organisations and their leaders have acknowledged the need for Internal Marketing that is clearly seen from the results of the research done for this thesis. The employee is still being seen as a little cell producing wealth for the organisation. But sooner or later all organisations who wish to survive in the 21-st century will have to admit that the traditional way of managing an organisation is disappearing and a new one is emerging. The new theory deals with a company as a tribe with its own culture, rituals and deep understanding of its members. Leadership will have to be replaced with partnership.

A Short Overview of the Internal Marketing Concept

Internal marketing has been described as the implementation of a human resource management philosophy based on a marketing perspective. The assumption of an Internal Marketing philosophy is that internal exchanges between the organisation and its employee groups must be operating effectively before the organisation can be successful in achieving goals regarding its external markets. (George, W. R., 1990)

The history of the development of the Internal Marketing concept is relatively short, but there have already been a wide variety of conceptual developments and influences. Several streams of thought can be seen as having an influence on its development, including relationship marketing, services marketing, theories of intellectual and emotional capital, human resource management, knowledge management, quality management, organisation theory and planning and strategy considerations.

The Internal Marketing concept describes a partnership contract between the employer and the employee. The employee is the first client of the organisation. The superiors and the subordinates have to be in an equal relationship. Both sides still retain their original roles but they have to act as partners in working towards a common goal.

The Internal Marketing concept holds that the people inside the company, the employees, are the first market for that company. The objective of Internal Marketing is to have well motivated and customer-orientated personnel. In some ways Internal Marketing is similar to good human resource management but it goes beyond traditional human resource management tasks. Employees have to feel that the management really cares about them and their needs.

Here are some hypotheses about Internal Marketing:

- Internal Marketing can help establish an important framework of legitimacy for new directions and transformations.
- Internal Marketing will become more important due to the emerging employment patterns. Achieving key values may be the only way to move the company forward.
- Internal Marketing can accommodate the constant process of change that most companies ride in the beginning of the 21-st century.
- Internal Marketing helps the process of knowledge development. Intellectual capital will be one of the main sources of growth in the future.
- Internal Marketing can help to enhance customer loyalty. The customer builds a bond of trust and expectations with employees. When

employees leave this bond is broken. The processes of Internal Marketing can minimise this because service values should be a known and shared process. (Samms, C., 1999)

Internal Marketing needs very strong discipline empowering staff in new directions using the construct of Vision, Reward and Development. There needs to be an understanding of the gaps in achievement.

The Lack of internal Marketing in Estonian Companies

Over 200 conflicts gathered and analysed by EBS unfortunately show that Internal Marketing is unknown to the managers of Estonian companies.

The most common causes of conflict in Estonian companies are:

- unequal treatment of employees
- autocratic and neglectful management
- lack of communication, lack of team-work
- lack of trust and recognition
- resistance to change

Several EBS Bachelor theses show clearly that Estonian employees seriously lack motivation. Motivation only seems to exist in leading Estonian information technology companies. (Nool, M. 2000)

Everybody knows the phrase "The customer is always right". But what about the internal customer? Is the employee always right? The correct way of asking this in Estonia should probably be – is the employee ever right? Research has shown that conflicts in Estonian companies are always of a vertical nature and the employee is too often being considered a lower form of life.

Most Estonian companies try to treat their external customers with respect, inform them of all little details and problems that may arise, let them make important decisions by themselves and have a subject – subject relationship with them. At the same time the management of these companies treats its employees as objects and not as an additional resource to the company.

For example – while making changes in the work environment – do the managers let the employees speak up? Of course not. Very often the needs of the employees are not even taken into consideration. But no matter what the customer – in our case it means the employee – wants you should always be able and willing to give. Otherwise nobody will benefit from your relationship. Sometimes the needs of the employee are pretty simple and really easy to fulfil. Internal Marketing is about changing little things, getting over small shortcomings and fixing even the most trivial problems. Because small problems won't disappear by themselves. They may also transform into large and even colossal problems that are much more difficult if not impossible to solve.

Very often the mission of the company is poorly written and not understood by all the employees. And even if the mission statement is perfect it is the duty of the management to make sure that everybody inside of the organisation understands it the same way and wants to follow it. The organisation is only effective when its ultimate goal is also the ultimate goal of every member of that organisation.

In his works E.M.Goldratt describes the misconceptions of the local effectiveness concept – " if I do my work well then it should be enough". It is not enough, of course, everybody has to perform their duties well in order to gain success. (Goldratt, E. M., 1999)

Another issue in today's Estonia of course, is underpayment. When an employee is paid about 30 times less than the CEO of that company it doesn't boost motivation levels much. How can one feel important to the organisation if one practically doesn't receive any money for doing one's everyday work? Unfortunately this is the situation today and there is not much anyone can do about it until there are fundamental changes. The attitude of superiors towards subordinates has to be changed so that they become partners. The management has to give up the traditional company hierarchy in their minds. All decisions have to be viewed ethically as well as practically.

What do we all do to motivate our external customers! Take the first client card policy for example. Most companies have some sort of membership cards, first client cards, all kinds of cards that the external customer can collect points with or get a discount. Why hasn't any company been thinking of inventing something similar for the internal clients? The employee could perhaps collect bonus points for every successfully completed task and finally gets an additional day off or a gift from the company. The employee has to feel that he is important, this is the key to everything.

The hard question is – where to begin making the employee feel special and important.

What Should Be Done?

The management has the responsibility for integrating the philosophy of Internal Marketing into the overall culture of the organisation. The new directions should be as follows:

- Command-and-control management giving way to participative management and empowerment
- Ego-centred leaders replaced by employee-centred leaders
- Partnership - the employer and the employee have trust in each other
- Employee participation in making important decisions
- Whoever makes the decisions is responsible for them
- Employee's work satisfaction as one of the priorities of the company
- Employee's criticisms and complaints are being heard and taken into consideration

In Estonian society there is an inevitable gap between the post-soviet and early capitalist management trends. In any case money seems to be more important than people. Estonian managers tend to be extremely autocratic and in need of training in order to help them give up this autocratism and replace it with understanding and guidance. Managers have to change their views on all management tasks – planning, decision-making, coordinating, motivating, sharing information, delegating, controlling. If Estonian managers were familiar with the Internal Marketing Concept and knew how to use it there would be much less stress and tension at the work-place and arising conflicts would be immediately dealt with and solved.

Good leaders and managers provide guidance. They have to be able to make the tough calls on everything from staffing to scheduling to prioritisation. And they have to be able to communicate efficiently and effectively. A qualified manager should see a problem developing from the ongoing email streams, not from hiring a consultant to do a project analysis. Of course, that requires energy, commitment and emotional intelligence. We have to admit that management is an art and not a science.

The book "Flight of the Buffalo: soaring to excellence, learning to let employees lead" by James A. Belasco and Ralph C. Stayer encourages employee leadership – which today's companies must have more of if they are to survive the coming decades. The following couple of thoughts originate from this book.

The new manager has to learn to give responsibility to his employees. He has to have trust in them and motivate them to do their share of the work well. He has to develop the feeling of ownership among the employees. All this requires a serious change in the mind of the manager but is well worth it.

In most situations the responsibility for actions is divided between two individuals. The responsibility for the results belongs to the person who did the work. Besides that, the manager is responsible for creating the environment where the employee will want to take responsibility. If the employees feel that the responsibility belongs to the manager and the problems are his, those problems never get solved.

The manager has to praise workers for solving their problems themselves and not bringing them to him. Managing people does not mean solving everybody's problems. It is about letting people make their own decisions and take control in their own hands. The managers have to be the employees' guide on their mutual journey to success. (Belasco, J.A., Stayer, R.C., 2000)

Resulting from the research on conflicts in Estonian companies and the theories studied the following training program in personal resources and emotional development for managers is suggested.

Training Program for Managers

Personal Resources and Emotional Development

Objective of this training program: Development of self-esteem and self-awareness, creating partner relationships with the employees, teamwork

Duration: 2 days, 16 hours

Methods of training – learning by doing, video feedback

Day 1- Self-esteem, sensing your partner, discovering a person's good skills through teamwork.
The role of attitude in processing information, possibilities to change attitude, role play, video feedback

Day 2- Partnership in real relationships – what it means. Win-win model, finding mutual gain in concrete relationships, team-work, role play, video feedback

Theories used: Humanist Psychology, Theory of Emotional Intelligence, Theory of Internal Marketing

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The Creation of Ethical and Motivating Work Environments

Mariliis Männik, Annika Vilu

The following article focuses on a problematic issue in Estonian work environments concerning employee's low motivation and satisfaction with their work. This is partially caused by a low level of ethical awareness within companies. The authors of the article explored this subject in their bachelor thesis entitled 'The creation of ethical and motivating work environments'.

With world globalisation, increasing competition and constant rapid changes in the market, the significance of human capital should not be underestimated. In order to achieve higher quality and effectiveness for the company, and increased work satisfaction for employees, great attention has to be paid to the work environment. The authors of the article believe that having an awareness of and respecting ethical beliefs, conscious motivation of human resources, and handling of conflicts and problems, have a closely connected to the creation of ethical and motivating work environments.

Business ethics comprise moral principles and standards that guide behaviour in the world of business. In an environment of globalisation it is wise for an entrepreneur, who wishes to compete while retaining stability, to set up business based on principles of honesty and trust in order to achieve success in the long run.

In their bachelor thesis the authors have looked at work ethics in the light of conflict and motivation. The goal of the work was to find out the main problematic issues in the work environment and through that to reach an understanding of how ethical or unethical work environments might influence employee motivation.

In order to achieve this, explorations were made to detect how much and in which way the ethical work atmosphere might have been violated. The authors wanted to reach an understanding of how to change the work environment into a more motivating one by using the results of the studies.

Proceeding from the goal, the following hypothesis was set:
If the work environment is not ethical, then the employees cannot be well motivated.

The authors believe that it could be beneficial to follow the logic behind this concept, and introducing this kind of approach to managers could positively change the way they think and act, while creating supportive and motivating work environments in their organisations. Knowledge of this subject can also serve as an impetus for improving the companies' overall performance.

For achieving the goals that were set, two different methods were used:

1. One hundred conflict cases that occurred in Estonian companies during the past few years were studied in order to explore problematic issues, the causes of dissatisfaction and the sources of conflict. Six typical and interesting cases were thoroughly analysed by using balanced ethical analyses;
2. Motivation and job satisfaction research was carried out in two service providing companies. A written three-part questionnaire was compiled and given to all employees.

Contradictions, disagreements and arguments are part of people's daily work regardless of any effort to avoid them. Effectively managed conflicts can contribute to organisational effectiveness, but mishandled conflicts can give rise to counter-productive behaviour in which both sides loose.

Initial research explored the main sources of conflict and the possible approaches to handling them. The cases analysed involved very different Estonian companies from both public and private sector and representing both service and production industries. After working through the cases, the origins and types of conflicts were highlighted. From those conflicts analysed 52% were of a vertical nature, 27% horizontal and 21% involved both vertical and horizontal.

It appeared that the most common sources of conflicts included lack of information, feedback and communication, which occurred in 33 cases. The second most frequently emerging problem was bad organisation, uncoordinated activities and poor job descriptions. These became evident in 22 cases. This was followed by amoral or even illegal behaviour which was an issue in 19 conflicts. Other problems which often occurred included limited participation and decision-making; undefined and unclear obligations, rights and values; unclear and unshared goals; misapplication of power; unfair treatment; lack of co-operation. The research brought out many other different conflict sources that are common to Estonian companies.

Entrepreneurs need to understand how to analyse and solve ethical conflicts in their work environment. A good way to solve ethical conflicts is to use balanced ethical reasoning, which is based on the main ethical theories of teleology and deontology. This method is found to be effective in conflict analyses because it enables one to see the case more objectively by exploring it from various aspects.

It should be pointed out that some similar research was carried out within the framework of bachelor theses a few years ago. We have compared those with our results and the outcomes are quite similar. Accordingly it would seem that there has been no significant improvement in Estonian work environments during the past few years.

Subsequent research was carried out in order to discover how to change the main problems in motivation and job satisfaction. Motivation and job satisfaction have a relevant effect on the productivity and effectiveness of the company.

In order to carry out the research a written three-part questionnaire was compiled and given to all employees.

The research showed that the employees were quite satisfied with their work environment and conditions. It became evident that good human relationships were of utmost importance to them. It also appeared that the greatest dissatisfaction was related to shortcomings in the exchange of information, lack of feedback and recognition, low participation in decision-making and also low incomes.

It also appeared that the employees judged their ethical environment, level of motivation and the handling of conflicts to be average. To be a successful and competitive company within the conditions of a rapidly changing economic environment, those levels should definitely be above average. Many managers of Estonian enterprises do not link their company's success with employees' motivation and work satisfaction.

The research brought out that the three most important motivating factors to influence employees in order of importance were good human relationships, money and recognition. It appeared from the research that issues of basic hygiene for the employees were not satisfied. If the company is not able to guarantee the employees with a basic level of hygiene, then the subsequent founding of a good motivational system is out of question.

Using the results of the research and drawing conclusions, many problematic issues were detected that need to be considered and improvements made in Estonian companies. Consequently, the most pressing problems are brought out here and suggestions for dealing with them are briefly presented.

- **Problems concerning information exchange, feedback and communication**

The employees should have a certain understanding of what they should do and why. They should be given more feedback about their actions, both negative and positive. For disseminating information various methods and channels should be used according to the situation. There should be a certain procedure, which would guarantee qualitative information exchange within the company.

- **Problems of organisation, undefined procedures and bad job descriptions**

Organisations should draw up their own company structure, determine subordinate relations, establish employees' rights and obligations via good job descriptions and define procedural rules.

- **Unethical behaviour**

It would be useful to compose an ethical program that determines the main ethical principles of the company. The ethical behaviour and attitude of the managers serves as a good example to the whole company.

- **Problems concerning participation and decision-making**

The employees' opinions should be included in the decision-making process. This improves the quality and objectiveness of decisions and motivates people by giving them an opportunity to shape their work environment and the company's future.

One can conclude, that the work environment cannot be motivating and satisfying, if the owners, managers or other employees act unethically. The legal and ethical environment has proved to be an important motivator that satisfies employees. Looking at the relationship between work ethics and motivation from the opposing perspective, it is also difficult to create an ethical environment when the level of motivation and satisfaction is low.

When ethical principles are not considered the company's image suffers and the motivation of employees decreases. As a result the company cannot be successful, competitive and able to develop in the long-term.

The hypothesis that was set at the beginning – if the work environment is not ethical, then the employees cannot be well motivated – found confirmation in the authors' bachelor thesis.

Ethical Decision Making and Consumer Relations in Estonian Society

Katrin Mark

Every day society pays a heavy price for the unethical choices of its members. Making ethical choices is rarely easy. In many situations there are a multitude of competing interests and values. Most decisions have to be made in the context of economic, professional and social pressures, which often clash with our ethical values and conceal or confuse the moral issues. But still we need to come to our ethical senses and make decisions according to such basic, non-discriminatory principles as trustworthiness, respect, responsibility, fairness, caring and citizenship – values that should make up the pillars of every character.

It is no surprise that, in these days of comprised ethics and values, the importance of business ethics in everyday life has been highlighted and that this subject is gaining more importance every day. The subject of the present bachelor work has helped to ascertain this fact through a closer look. Ethical issues have also been the subject of numerous discussions in today's Estonia. More and more attention and effort has been directed to these matters including various researches, study programs, publications and seminars in order to increase awareness of the problem in the minds of Estonians and change the pattern of unethical behaviour.

General Issues in Business Ethics

Ethics refers to standards of conduct, standards that indicate how one should behave based on moral duties and virtues, which themselves are derived from principles of right and wrong. The essence of ethical thinking and being ethical means doing the right thing. According to the main ethical theories 'the right thing' can be viewed from the point of view of the consequences of actions (teleological theories) or duties, obligations, and the will of actions (deontological theories). (Parker, 1998)

The development of a person's ethical behaviour is influenced by the environment in which the person grows and matures, this includes aspects of culture, family and school. So it is essential to start gaining a knowledge of moral principles and values already at an early age and the subject of ethics should be included in the programs of all business schools in order to develop ethical business people.

Ethics affects how an individual behaves within a business. But corporate social responsibilities affect how a business behaves towards other businesses, customers, employees, investors, and society at large. So social responsibility is an important part of business ethics. Corporate social responsibilities towards different parties are often reverse, for example a company must maximize its profits for investors, but it has to produce high quality goods for customers. From a thorough study of different approaches to social responsibility the author concluded that social responsibility should mean a compromise in order to maximise the positive and minimise the negative effects on society.

Ethical issues in business typically arise because of conflicts among individuals' personal moral values, the values and attitudes of the company in which they work, and those of the society in which they live. Ethical issues in business may be divided into four classifications (Ferrell, Fraedrich, 1997):

1. A conflict of interest exists when an individual must choose whether to advance his own interests, those of the organization, or those of some other group. For instance, a severe conflict of interest may arise from a situation in which a company trying to get higher profits cuts corners on meeting the product safety and quality requirements.
2. Honesty and fairness relate to the general moral attributes of decision makers. Honesty refers to truthfulness, integrity, and trustworthiness; fairness is the quality of being just, fair, and impartial. For example, no businessman should

knowingly harm customers by lying to them about the qualities of the product.

3. Communication refers to the transmission of information and the sharing of meaning. Ethical issues in communications relate to advertising messages and information about product safety, pollution, and employee work conditions. For instance, communications that are false or misleading can destroy a customer's trust in a company.
4. Organisational relationships relate to the behaviour of members of an organisation toward customers, suppliers, subordinates, superiors, peers, and others. Ethical employees try to maintain confidentiality in relationships, meet obligations and responsibilities, and avoid putting undue pressure on others that might encourage them to behave unethically. For example, one ethical issue related to relationships is plagiarism: taking someone else's work and presenting it as one's own. Such actions are unfair, both to the person who originally made the work as well as to the client, who is paying for original work.

Companies with strong ethics programs have found that these efforts can help in many ways, such as strengthen financial performance, improve sales and reputation, strengthen employee loyalty, decrease vulnerability and the pressure of boycotts, avoid fines and criminal charges, provide access to capital and enhance customer loyalty.

Ethical Decision Making and Consumer Relations

As the central person in the modern market economy is the consumer, the company has to put a lot of energy into developing good relations with consumers. Excellent customer service means providing quality products or services at a fair price, honestly representing the product or service and protecting the customer's privacy. As privacy is a basic customer right, customer's privacy issues should be treated with great attention; these issues include confidentiality, product safety, truth in advertising and responsibilities.

However on the one hand the producer tries to protect his consumer in every way and on the other hand his ultimate goal is to earn profits, not just please the customer. Therefore the manufacturer is often tempted to use the consumer's lack of information concerning the product specifications, or his monopolistic market position to hold high prices. This enables the producer to earn extra profits, at least until the entry of competitors. Such behaviour on the part of a producer towards price determination can be regarded as unethical behaviour.
Other fields of producer's unethical behaviour include hiding product defects, not testing the product enough, disregard for environmental issues, etc.

Today for the most part, consumer protection laws represent very well the rights of consumers. There are, of course, other laws dealing with competition, advertising and monopolies that stand for the same interests. The consumer protection law states four basic rights of the consumer, which give grounds for consumer protection in most developed countries. These four rights were outlined by U.S. President John F. Kennedy in 1962:

The Four Basic Consumer Rights:
1. right to safety
2. right to choose
3. right to be heard
4. right to be informed

Ethical Conflicts and Consumer Relations in Estonian Society

A decision-maker in Estonia is faced with many ethical conflicts due to the fact that the main goal of most entrepreneurs is still self-interest and profit maximization. The main conflicts between business ethics and consumer relations in Estonia arise from issues such as unsafe and poor quality products, unsatisfactory services and the violation of competition rules. The reason for all these conflicts is basically the avoidance of social responsibility.

The rights of consumers in Estonia are protected by the Consumer Protection Board. Its main functions are to supervise the consumer market, to settle consumer complaints and inform and advise the consumer.

In this study I paid attention to the overall situation of business ethics and consumer relations in Estonia including conflicts and breaches of ethical behaviour as reflected in our media, mostly via publications and the results of the work of the Estonian Consumer Protection Board in 2000. A total number of 330 articles was searched and worked through all related to the mentioned subject. Most of the articles were issued between September 2000 and March 2001, so this overview is of a rather current nature and it reflects the current problems.

As a result of the study, five major areas of ethical conflicts in business ethics and consumer relations in Estonia can be named as follows:
1. unsafe and poor quality products;
2. unsatisfactory and low quality services;
3. unfair pricing and the violation of competition rules;
4. misleading and aggressive promotion;
5. problems with public services.

The legal coverage of consumer protection in Estonia is quite good, especially in the area of safe and quality products; at the same time contractual services and protection of consumer economic welfare need some additional legislation. However, as shown above the problem of product quality is still the most relevant conflict issue. So it can be concluded that our businessmen are quite eager to violate and breach the legislation.

Unsafe and Low Quality Products

As seen above, this is one of the biggest areas of ethical conflicts in Estonia. The main problems with products usually concern quality and price. Here we focus on the issue that has caused a lot of discussion in Estonia during the last months – the quality of gasoline.

During the last year, the quality of gasoline has been a major problem on the Estonian market. It has caused lot of trouble with vehicles and forced car owners to make extra repairs which are usually quite expensive. Here comes the dilemma. Who should cover the expenses of extra repairs caused by poor quality gasoline?

One typical case:

Bona fide purchaser goes to the nearest gas station, fills his car with suitable gasoline, pays and drives away. After some time the engine of the car starts to show some problems. The car owner goes to his car service company to find out what has happened. The results of the inspection show that the problems have been caused by poor quality gasoline and that his motor needs to be repaired; it costs approximately 3 000 – 20 000 EEK, depending on the car. Who should cover the expenses caused to the *bona fide* purchaser?

According to inspections by the Consumer Protection Board, 1/3 of those gasoline retailers and mediators that were checked, violated the regulations in their measuring, the lack of the appropriate documents for selling gasoline, inappropriate try-out tests, or other requirements.

The key issues and concerns of this case can be indicated as follows:
- poor quality gasoline;
- damage caused by the poor gasoline;
- high repair costs – who should cover the costs?

Mr. Meelis Pajumägi, the head of the Japauto Ltd. Service department, says that poor quality gasoline cannot be the fault of the car manufacturer, so they can't accept the problem as a warranty repair. (Japauto.., 2001) The gasoline retailers refuse to cover the damage also because as gasoline is a product without packaging it is almost impossible to verify the gas station that sold it.

What could be the options for a fully acceptable solution?

First, the gasoline sellers should consider the Golden Rule – would they like to be in the situation of the customers whose cars are damaged because of the fuel they sell? The answer is probably, no. So they are abusing the main principle of ethical behaviour. The solution involves acting the way they would like others to act towards them – not to sell poor quality gasoline and always check the gasoline they buy from the wholesalers.

This is a good example to demonstrate the self-orientation of Estonian businessmen. They are selling poor quality gasoline just to earn higher profits, and they are even denying the damage that has been caused by their action.

To achieve a Win-Win solution, we should also consider the role of the car seller. It is not an ethically correct decision to reject the car owner's complaint and ask him to pay a huge amount of money for repairing a new car. The car seller and the car owner should reach a compromise which would result in a Win-Win solution for both of them.

Summary

As a conclusion and analysis all these articles and cases, we can say that the reason for ethical conflicts in Estonia is the overall economic situation, which unfortunately is very often aimed at personal profit maximisation by all possible means. A lot of ethical dilemmas are caused by factors like personal interest dominating over public interest. Very often we are not only dealing with an ethical conflict but also violations of laws and breaches of moral and societal norms.

However we should not be so pessimistic over-all about the ethical future of the Estonian business community as there is a tendency towards improvement. More and more conflicts and examples of misconduct are brought to the public and even go to court. Our press is working hard to reveal all cases of unethical behaviour. The opinions of customers are also revealed through the media. The Consumer Protection Board organises control and inspection movements and is supervising the consumer market quite well by imposing fines and making prescriptions to those who have abused consumer rights.

Ethical paths are available – though they may be less convenient or more costly. In many cases, ethical means of reaching worthy ends only require a little more work and a little more sacrifice.

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Outlook Upon Managing: is it Art?

Erika Saks, Hansa Capital Group

Indeed, is management art? Is it some activity that can be learnt or is they're something more than just a proper academic knowledge and experience of life needed in order to become a real master of management? Not every violinist that masters the instrument is a master. Is there a relevance to management?

Throughout the history masters of every field of life have gained notability and admiration. Today, we have plenty of managers whom media has displayed and whom the public considers heroes, yet what are these signs in management that refers to art? What are the signs that enable us to believe the considered maestro are really the true ones? What are these people like who become masters of management? What we need to distinguish the virtuoso from interpreter?

So, is management art? The parallel with aesthetics tells us: if management is art then the manager has to be an artist who creates it. Thus the question is who is the artist and who is the artisan? Trying to draw the line between artist and artisan we are trying to draw the line between the ordinary manager and the artist manager. What is the difference between two paintings out of which one is an ordinary painting (made by a child) and another one is a great art (made i.e. by Picasso)? And what is the masterpiece in management? How does one manager reaches the results in his work that can be named art and another one doesn't? What is mastery? What is a masterpiece like? What is content and what is form? What is the byword for beauty in management? What are art categories in management?

Management is art when it has certain trait characteristic to art. The question of management as a form of art is truly intriguing. It would be as a new trend (or at least a backdrop) in management that would acknowledge: yes, there is a lot more in management that can not just be learnt. Learning to give the right answers is the same as to master techniques in piano playing, but knowing the right answers is not really art yet. It demands a lot more to be a real artist and this is what we will focus at.

How to Recognise the Art of Management?

1. **The urge to create.** An artist, whoever he could be – a composer, a poet, a sculptor or in our case a business manager – works because of his inner inspiration. He has the inner urge for creation. He goes into raptures when working and there is no way he can keep his urge inside of him. He does not compromise, does not surrender, he is constantly searching for the ideal. The workplace of such manager is his home. He lives for his work and his purpose of life is in work. If to take his work away from him then there is not much left.

2. **Focus to process.** The theory of management asks: to do right things or to do things right? Focusing on a process means to prefer "doing things right". The prime goal is not to achieve the goals, but the culture of the organisation, relations between people. Not "what", but "how". The manager who considers it important how goals are achieved, appreciates and develops team-working skills, he is resolving conflicts, has positive image of him. He values the other people and treats his co-workers as fellow-fighters not as means for achieving the goals of his own and those of the organisation. This kind of manager sets people in front of the material things/goods that are stated in the goals of the organisation. The most important sign by which an artist differs from an artisan is that in art creation the process is prime. An artist apart from an artisan needs to create because of his inner urge and the process of creation is inevitable for him. The artisan in comparison enjoys the result of the work, the fruit, and not the process.

3. **The importance of technique and continuation.** From time to time there become new artists that bring his new techniques with them – cubism (the technique of geometrical shapes), impressionism (the technique of the mood/impression). Even though technique can be in change a piece of creation can not be called art without having learnt techniques. Practically we are talking of capabilities and skills. We can surely find talents in managing art, but we still need to possess certain techniques. The manager has to practice these techniques every day in order to stay in a good shape. He can not

expect his talent to reveal when there is a need for it. It would be the same when an artist would refuse to learn painting, but expect to paint a beautiful picture when he only sees the right scene. The manager has his own techniques that he continuously needs to improve and develop. Some of these techniques are specific to his field of economy, some are universal like communication skills, team-working skills. The defining part of it are the intelligence of a manager, his outlook upon life, his capability of defining and redefining things, creativity and EQ, his capability to separate important from unimportant. Our EQ is limited by our biological routs in a broad scale – there are very little we can do to help ourselves during our lives. Though there are a number of other capabilities that can be developed i.e. ability to differ important from unimportant, outlook upon life and one of the most important factors for shaping those is (higher) education.

4. **The problem sensitivity.** Social problems are the major issue for the artists of the 21st century. They depict the problems of the society and show life in a new perspective, they teach art consumers to step aside and look at themselves from above, they teach people the self-irony and critics of their own actions. The same reveals in management. The manager should never forget why his organisation really exists. The greatest managers see their business in a broad scale and never focus simply on their narrow business line.

In another words the question sounds: does the organisation exist for a human being or does the human being exist for the organisation? It seems that it has become an overall opinion that economic system exists independently from the human will and does not obey to human control. If one wants to believe that organisations do not exist just for themselves, that their task is not simply the production of some goods and services, means that the person believes in organisations having other functions, related to people. Organisations are therefore the places where people carry out their ideas, where they communicate, where they can develop and experience excitement, and have a certain lifestyle.

5. **The matter of organisation ambitions.** One of the main categories of aesthetics is *low- sublime.* Those who practice the art of management differ from the artisans from being able to set up and achieve sublime ends. Sublime is not the characteristic of the object but its inner quality, it is created in the soul of the human being and expresses the level of his soul development. Just as Kohlbergs Personal Cognitive Moral Development model tells us. As to Kohlberg the behaviour of the individual is determined in lower levels of the development by outside stimulus. When an individual gets onto higher levels, the more sublime his behaviour becomes. The individual himself will become the greatest critic of him, he will no more need the outside regulators to assess his behaviour, he will establish goals himself and only the person himself will control the progress.

Kant differentiates three kinds sublime: **(1) material sublime (2) dynamic sublime (3) moral sublime.** Material sublime is expressed through natural objects – cosmos, mountains, landscapes, and steppe. Dynamic sublime is expressed though storm, thunder and volcano outburst. Moral sublime is expressed though human. The extraordinary and unique nature of human moral power, and precisely this moral power lifts human higher from the other species express it. Kant admires most the moral sublime as it causes a lot of admiration and wonder. Sublime for business managers situates on the higher levels of Kohleberg's model. That is when business practice is not dependent on the social norms, but are driven by managers inner beliefs of goodness and truth. In the world of organisations the top of the pyramid is formed by those who are involved in charity and philanthropy, have made socially responsible campaigns and actions.

6. **The personality of the artist.** Art is not aimed just to imitate the object as naturally and precisely as possible. Art is always the fusion of the objective and subjective. Artist has put his own values, visions, opinions into his work and that is what makes it special and unrepeated. Art accumulates and onwards great and unrepeatable individuality. The artist can not be replaced. Bill Gates and George Soros can not be replaced. Typically we are using the term charismatic when talking about business leaders. Undoubtedly charismatic leader is the great leader as he is the one to whom the motherly nature has given plenty of gifts. He can be distinguished from the ordinary manager by his ability to make people dedicate to work, he is the one who has skilfully replaced the term "must" with the term "want" in the heads of his co-workers.

Beauty and Goodness

There are significant connections between ethics and aesthetics. The main issue of aesthetics is "what is beauty?" And the answer is -- it is much simpler to recognise beauty than to describe it. When trying to answer the question 'what is good in management?' we must search for the answer in (business) ethics, hence its main question is 'what is good?' And again there is relevance to aesthetics as it is much simpler to recognise goodness than to put it into words. Beauty and goodness are the universal characteristics than can be found everywhere. There is nothing logical about them and they can not be measured. But as at beauty we can measure proportions we can measure a person's ability (in relation to other people) to be helpful, altruistic, empathic and so on.

Socrates said **beauty = truth = morality.** Ethical is beautiful, truth is beautiful, truth is ethical. When there is the period of cultural prosperity then a lot of art is created – that is a lot of beauty is created. At those times the level of ethicalness arises.

At barbaric times beauty and art are destroyed. Unethicalness and lie replace truth and ethicalness. At the periods of economic growth new heroes are striving up and the publics are admiring them. At the economic prosperity times the most high-minded managers are not hesitating to share their joy and material wealth with the workers of the organisation. They will share the profits with them by giving them bonuses, they will enable them to participate in courses, will pay for their holiday trips and will not be stingy to share a part of a profit with the ones whom life has pushed aside. At those times managers will fight for the truth inside their corporations and outside. The overall trend of being socially more active is present.

When luck turns nobody has time or will to care for the others, the whole energy is spent on reassuring ones own position and existence. All high-minded goals and missions will be forgotten and when it seems impossible to solve the situation then the natural reaction – search for the guilty one – is there. In another words this is the analogue situation of the door that is locked and key lost and everybody instead of looking for the key are looking for the one who lost the key. Relations between people are heavily suffering and values are twisted around. Lying and steeling will be allowed all of a sudden. The whole business will become ugly as all truth and morality will be missing.

How beauty is depicted at different times correlates to the mentality of the era. As time passes the comprehension of beauty changes. It is exactly the same in aesthetics. When in the 20th century the autocratic style was common and intelligible in managing corporations. Nobody doubted that those who fulfil orders should obey without hesitation. Today the situation has changed. People require more and more freedom and rights in the society as well as in the corporations. Democracy is the obligatory element of every corporation. The proofs are easy to find.

For example there is a case of a human resources manager Jenny who has to present a report of the key figures personal profiles and careers to the board of directors. The vice-president, who is Jenny's boss, sees her abstracts and makes 'slight' changes. For example he changes a 'suitable for promotion' into 'not suitable for promotion'. What should she do? In our era the common opinion is that she should dispute the changes her boss made. In past era the situation would be just opposite, people would not dare to disobey. We are a part of our era and we change together with the system. We redefine our convictions of good and evil, acceptable and unacceptable within time. When hundred years ago death sentences were executed then the morality of our era in most well developed countries does not allow us to execute human beings any more.

Beauty is in relation with the purpose of the organisation. Socrates believed that the object is beautiful when it applies to its purpose. He said, "A golden dung basket is ugly". Yet many organisations have forgotten why they exist. Economy today is regarded as an independent machine which is completely independent from the will and needs of a human. To a lot of people it seems impossible to turn things into a way we want them to be. Managers as well as owners have lost the idea of the existence of the organisations. A few beautiful, admired ones still remember.

The entire business life has changed remarkably within past hundred years. It was just recently when a majority of people did not have a chance to possess working tools, machinery and appliances. Today we carry our main working tool with us. Our brains are the tools in the 21st century; the main investment nowadays goes into education, knowledge and skills. People have gained much greater freedom hence the managers can be all those who have enough fresh ideas. That is because unrepeated original ideas are the main source of wealth in the New World. The relationships between owners and workers have changed and slogan 'owners want profit' is out of date.

What is beauty and ugliness in such relationship between owners and workers? What is highly appreciated and what is disguised? The essence of the problem is well depicted in the recent best seller of James Belasco "Buffalo's flight" (Belasco, 2000). In short the situation is the following. The manager together with his people stands on top of the mountain. They all admire the marvellous sight that unfolds down on the valley in front of them. The manager asks if it wouldn't be great to have a small little house in the valley and all the other people agree with him. At last the manager says, "When you work hard for two years then I'll live in it."

If hundred years ago workers would have accepted such statement without any notion then today's situation in well-developed countries is much different. People do not allow treating themselves in that way any more. They are the biggest value for the organisation and the biggest assets are in their heads and if the organisation does not please them any more they'll move on. So, the key word for the organisation's beauty is democracy. Highly appreciated and admired, the beautiful ones, have adopted democracy.

Ugly and Evil

In art the opposite category to beauty is ugly. Accordingly the categories for organisations are goodness and evil. Similarly as it was difficult to define goodness, it is difficult to define ugliness. Ugliness is anomaly, the difference from the norm. It is coherent to breaking the norms and rules and being out of scale. In business practice the measure for evil is the absence of knowledge and development, self-centereness, slyness, stupidity, the absence of manners. It is the materialism, which confronts the mentality.

Another dimension of ugliness is obliteration, ruinous. We can imagine the feelings that would capture us when we watch the landscape smashed by human activity, a few stunted trees covered by industrial dust. Or the opposite – a scene of an opulent forest which is full of life. Throughout centuries the nature has been the object of art admiration. Organisations play an important role – if not the only role – in ruining nature and ironically even the human life itself. It is the embodiment of evil in its purest way. We destroy the life around us and somehow have forgotten the very basics. "This is the first time that the activity of a particular species – us human beings – could truly destroy the ecosystems on which we and other species depend on our existence. We are also, by our actions, irreversibly destroying biodiverity. The new moral dilemma is that we are the first species to be able to do so and to be conscious of it." (Guptara, 1999)

It is not the power itself that courses the evil, but the misuse of it. Not the money itself, but the purpose of its usage.

Content and Form

Practical aesthetics deals with analysing the form. It searches for the possibilities how to connect the practical forms with esthetical beauty. Business ethics is similarly searching for the ideal forms that are aimed to diminish the possibilities of misconduct, justice and rights. One of such models introduces us our ethical decision-making process where we filter our decisions through several channels. As to this we think how our decision would seem to the closest person (mother-test), would we have guts to go public with it (TV-test), does it "smell" good (smell-test), what could possibly think the people in the market about it (market-test) and how would we like the decision when we were in somebody else's shoes (being-somebody-else test) . (Meel, 2000).

Also various ethics codes are searches for the ideal form. By the organisation's attempt to establish ethics code, they are indeed trying to give a shape to the organisation that the community admires and respects. Also when the organisation is learning and practising techniques, it is trying to achieve the masterly level and create admirable. There are a number of techniques such as the skills of analysis and synthesis, skills of communication that organisations are willing to master and once they do, we can enjoy them as we enjoy art. Only this artist who masters techniques has a presumption to achieve perfect forms. Just as the artist of the antique era who believed that everything has a perfect form, the today's business world believes that we can reach for a better state of form perfection in business by improving our skills.

What is the content of management art? And is it possible at all to separate the content from the form? Usually people perceive a piece of art as a whole and they make no attempt to separate content from the from. Yet, when there is disharmony between the content and the form then it catches our attention. The content of the piece of art is in its content; it is the message that is put into it. Form is only the material organisation of the content. There are three schools who deal with the research of content and form.

The first one is formalism. The presenter of this school Kant believed that pure beauty is playing with form. Therefore it is no wonder that so many managers of our days who wish to become artists in managing spend so much time and energy on searching the form perfection. In another words it is the continuous self-development, life-long learning. The history of (management) art treasures those who have created something in the field of form not those whom have discovered something new.

The second school believed that the value of the art comes from its content. Art is the expression of the personality and the more original it is the better it is. They pay little attention to the form. In the world of organisations it means that it does not matter in what form does an organisation exists (as to the structure of the company, is it physical or virtual, etc.), how it is managed, how it is trying to achieve its goals. Only those ideas that are carried by the organisation are important, the subject of the business, the reasons of its existence. In another words if the goals are sublime and noble there is no difference which methods are used to achieve the goals.

The third school values both content and form. The representatives of this school search for the message that is put into the adequate form. Equally important are the goals of the organisation, its vision, the reason of its existence called mission, as well as the means used to get ends.

Sources of Inspiration of Management Art

Can the art of managing be learned? Plato claimed that majority of art types such as architecture, sculpture, painting, acting can be learnt. He lifted only poetry higher from the rest and said it can not be learnt. The source of the creation does not come from the reason, but is from the world of muse. The state of inspiration is not obtained wilfully, but comes from the physical world. Inspiration has nothing to do with the intellect or reason, but is solely a present from the gods. Art of managing belongs to the same category with architecture and sculpture, where are space both for learnt skills and inspiration. Management needs to be studied, but just studying does not make anyone a master.

The concepts of management try to subordinate the whole management activity to the rules, laws and logic. Yet, genius organisations and genius managers have not achieved great results because they have precisely followed rules and theories, just the opposite, they have ignored all rules. Genius has nothing to do with logic. Genius artist does not follow any rules or norms, but creates them himself. The other artists who start to copy it become interpreters.

In Conclusion

The number of managers has increased as machines have started to replace the physical work. A great number of people have become office clerks who observe the work of the machines. The world has never seen so many managers before and the importance of the science of managing is more important than ever. Managing has changed greatly, has passed many phases of development. Today's science of management values in addition to high IQ also EQ (emotional intelligence). Yet, just a few ones have got to the top and are the true maestro's in management. They are admired because of their skills to recognise and create beauty, they have succeeded to keep themselves from unliness and evil, they have put a sublime content into the masterly form.

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