Old and New in Business Ethics Theory


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Abstract

This paper aims to show the need to study both classical and modern theories in business ethics. It is necessary because social relations in production change, as do production conditions, the relationship between owners and workers, employees. The aim of the article is also to demonstrate the possible deviations from the natural, basic principles of ethical behavior in business and to look for opportunities to regulate them and limit the opportunities for their manifestation. This study has an epistemological character, dedicated to studying the evolution of fundamental ethical theories explaining the interaction between subjects in the ethical ecosystem. In developing the article, descriptive analysis was used to identify, analyze, and summarize the main features of poodle theories in business ethics. This paper has its theoretical basis of a rich category of tools and classical theories in aesthetics; new business ethics theories are being developed as an inalienable part of the ethical ecosystem. The evolution of the productive forces has had its irreversible impact on the ethical relations in the social system and on each business unit as a whole. The interrelations between the main religions professed by mankind – Christianity, Judaism and Islamic religion with the main category assessing the return on investment, namely the interest rate, are analyzed. The conclusions have been drawn about this type of income in the older religions and newer religions. Basic new business ethics theories are analyzed, such as the Theory of moral hazard, Agency Theory, Diamond’s Theory of delegated monitoring, Rent-Seeking. Research on the evolution of basic business economics theories is usually done based on theoretical analysis and much less based on specific business cases. Here is presented the manifestation of modern theories in business ethics, particular cases of changes in the state of business ecosystems and possibility that basis can also serve as a legal and regulatory initiative to precisely regulate these deviations and their sanction. The chosen form of research is sharing the opinions of the author of the study. In this article, the author seeks the connection, the integration of ethics in the functioning of the business system due to the severance of the direct relationship between owners and employees and the emergence of intermediaries as agents to whom decision-making rights are delegated. The severance of this relationship is at the heart of the evolutionary development of the ethical business side in the context of existing constraints.

Keywords: Business Ethics, Moral Hazard, Rent-Seeking, Diamond Theory, Agency Theory.

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Introduction

Every day, opening the pages of any newspaper, we read about another political scandal, when political interests intertwine with business interests aimed at violating the rules or standards accepted by society. The high-level management of Enron, Meryl Lynch, HSBC, Deuchebank – these are just some of the headlines on the front pages of newspapers, which describe how companies manipulate their balance sheets to make them look more appropriate in the eyes of shareholders. “Doing the right! Thing” – is essential for companies, taxpayers, shareholders, but also society as a whole.1

1 Weiss, J. (2014). Business Ethics: A Stakeholder and Issues Management Approach, p. 10. https://scholar.google.com/citations?user=--4h3V0AAAJ&hl=en#sc昀md_cita-d&pg=an%3F%3F%3D%3Dview_op%3Dview_citation%26hl%3Den%26user%3D--4h3V0AAAJ%26citation_for%3D%3Dview%3D--4h3V0AAAJ%3A208QxNG5pMEC%26zum%3D180%3D.
The science “Business Ethics” is a manifestation of our systematic desire to understand our individual and social moral experience to establish the rules governing human behavior, develop the scale of values on which we must base our daily behavior, and cultivate such traits of human character. Particular, ethics applies the principles of general ethics, mainly to solve specific problems and study the principles of morality in specialized areas of human activity. Business ethics is one of the youngest and fastest-growing scientific areas. Subjects courses are taught in the West, in the United States, not only in business schools but also in reputable universities, becoming an integral part of economists, managers, and specialists in the management of public organizations and public service. Gradually, interest in business ethics arose in Bulgaria. There has been a shift towards applied ethics (bioethics, scientific ethics, business ethics, banking ethics, ethics and artificial intelligence), i.e., towards “professional ethics”. All this species diversity of purposefully developed ecosystem in the science “Ethics” aims to present the specific manifestation of the universally valid ethical categories from its origin to the present day. That is why the evolution of theoretical thought has its significance for further developing this so important area of scientific knowledge about man and his essence. The scientific hypothesis of the article may be defined as the evolution of the basic social sciences, in which ethics is an integral part. While the classical authors in ethics reflect in their theories, the level of production relations in the unity between property and management. The last modern theories in business ethics have the task of precisely reflecting this separation - of ownership from management, which causes transformation, evolution and, accordingly - opportunities for disproportions in these relationships.

**Methodology and Research Methods**

This study has an epistemological character, dedicated to studying the evolution of fundamental ethical theories explaining the interaction between subjects in the ethical ecosystem, based on basic ethical categories and further developed in the context of their manifestation in a dynamic and structural environment. In developing the article, the author used **descriptive analysis** to identify, analyze, and summarize the main characteristics of some poodle theories in business ethics. This analysis inevitably provokes associations and search for points of reference in the existing and explanatory theories about the manifestation of ethical problems in the process of production and supply of goods.

**Main Ethical category.** The terms “morality”, “ethics”, “morality”. The founder of ethics is Aristotle, who in the IV century BC created the basic treatises on morality, the concepts of good and evil, of worthy people or immoral actions (Aristotle, 1993)2. To translate the works of Aristotle into Latin, Cicero used the term mores (morality - morality, holes, character). In several languages, there are analogues of the word’s “ethics”, “morality”. In the Bulgarian language, we use the word “morality”. In their original meaning, the two terms were used as synonyms, but over time, different meanings began to consolidate in them. We use ethics as a field of scientific knowledge, while when we talk about the subject of morality, we understand a form of social consciousness. The moral system of values existing in society performs the function of regulating a person. Morality is one of the forms of social consciousness and acts as an object of ethics. Morality exists before it is accepted or not accepted by an individual. Man does not create his own rules. Morality is embodied in the form of value judgments of good and evil. It is passed down from generation to generation. It has an objective status as a set of rules for the behavior of the individual. Morality – the sphere of the spiritual life of man and society, which includes various customs, norms of behavior in the human community. In everyday speech, the two expressions are sometimes used interchangeably. There is no single indisputable definition of morality in science. Russian philosophers Husseinov3 propose to consider morality, on the one hand, as a characteristic of personality, and on the other – as a characteristic of human relations, a set of moral norms of society. Building an “ethical infrastructure” of organizations places it as a process next to the organizational climate and organizational culture. The system of moral norms, ethical principles and ethical standards refer to right or wrong, good or evil in terms of moral values and certain criteria. In applied ethics, abstract philosophical and ethical concepts are concretized for a given practical field to unify. An EU working document offers certain working concepts in the field of ethics:

- Ethics – the norms, through which certain ideas and values are transferred to everyday practice.
- Values – publicly approved principles for assessing good and evil.
- Standards of conduct – required rules for evaluating the practical actions of employees and administrators.4

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Traditional Ethical Theory

As A. Crane and D. Matten (2004)⁵ claim, “Ethical theories are rules and principles that determine what is right and wrong in a situation”. Traditional ethical theories provide a fundamental role or principles that can be applied to any situation. They have a predominantly normative character because they begin with an assumption about the nature of the world and a more specific assumption about the nature of the human being. These authors have presented the following structure of normative theories in business ethics:

<table>
<thead>
<tr>
<th>Contributors</th>
<th>Focus</th>
<th>Concept human being</th>
<th>Type</th>
<th>Ethics of duty</th>
<th>Right and Justice</th>
</tr>
</thead>
<tbody>
<tr>
<td>Adam Smith</td>
<td>Rules</td>
<td>Individual desires and interest</td>
<td>Maximization of desires/self-interest</td>
<td>Utilitarianism</td>
<td>Duties</td>
</tr>
<tr>
<td>Jeremy Bentham, John St Mill</td>
<td>A human being as a subject with limited intellectual potential and opportunities for development</td>
<td>Utilitarianism</td>
<td>Categorical imperative</td>
<td>Respect for the human being</td>
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<tr>
<td>John Kant</td>
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<td>John Locke</td>
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**Table 1. Normative Theory in Business Ethics**

The authors’ conclusions are the new ethical theories in business economics based on which the subjects can form their findings, which will predetermine the basic ethical statements. These findings can be called deontological because they act independently of the suspected negative effects but apply without alternatives. But if we look back at the roots of religions, we will see that each of them has given its interpretation and decision regarding selfish activities and doing business to benefit man and society. The attitude towards money and interest as income is different in different religions, but the more actively the interest was used as an economic argument and motive, the faster the development of productive forces in the economic system.

- **Christianity**
  - The Christian religion has adopted from Judaism the attitude towards receiving interest.
  - The disputes in the Middle Ages over the accrual of the so-called "moral interest”.
  - Discussions in the Pope's Council, which lasted for many years, eventually lifted these rigid restrictions and approved the payment of interest.

- **Judaism**
  - There is a general prohibition on taking interest, but this does not apply to claims from people of other religions.
  - It is forbidden for Jews to take ilihva from Jews.

- **Islam**
  - Islam prohibits the accrual of interest. The income is distributed between the investor and the depositor according to a preliminary contract.
  - In practice, interest is replaced by debt revaluation.

**Figure 1. Religious and Interests**

Although all current religions have denied interest, in practice, each has found a way out by redefining this form of income from providing financial resources in the form of credit. The new understanding of finance as a discipline of ethical or moral origin partly adheres to the experiences arising from the many contradictions, they have encountered in previous centuries among the various world religions. Generally speaking, it is acknowledged that a certain type of rivalry has existed in recent centuries. This rivalry lies between the positive effects on the well-being of the use of money and the practice of finance for a limited social group and the negative effects on the well-being of a larger part of the poorer population.

Figure № 1 provides an idea of how the positions of Judaism, Islam and Christianity partially overlap in some key positions on interest collection. The uneven distribution of wealth between individuals is often justified by the significant role of money in serving as an accelerator of envy, greed or defense. If we look at the appearance of any coin from any era, we will find the interesting fact that, in the past, two different symbols were the reliefs on each side of the coins. Here we must connect with Aristotle's postulates about the use of money – economy and chromatics. One side of the coin represents the bright side of money. It reflects their ability to perform their three main functions: to serve as a medium of exchange, a unit of account and a store of value. Such operations can reduce the purpose of using money to the realization of the relationship as a result of economic transfers: “commodity - money – commodity” The other embossed side of the coin offers the profile of the sovereign who issued the coin. It often expresses such a positive economic function of money to value wealth and wealth. “The other side of the coin shows its dark side”. Money is seen as a threat to people, as it allows the conquest and subsequent regulation of people's minds, behavior and attitudes. The reverse side of the coin was often embossed with a religious relic, mostly a crucifix, complete with a quote to remind people of the dark side of money when using it in their daily lives. It was a warning sign. From a historical point of view, the relationship between money, respectively, finance and religion, is determined by the great controversy over the collection of interest.

Some fundamental issues of money and ethics have been the subject of many generations of discussion in recent centuries. One of them was the question of whether people are allowed to take and receive interest. If the latter were true, then taking interest from people would be considered a grave sin. Related to this issue is the one that expresses doubts about the fairness of interest collected by the debtor. Is it fair to take advantage of someone's deteriorating economic situation by burdening them with the obligation to pay interest? Is not the burden of paying off the debt itself a load that the debtor must bear? Unsurprisingly, the Catholic Church's behavior has traditionally prohibited the accrual of interest if in the case interest on loans is required may be invested in risky investments. Moreover, or if the interest rate is unethically high, it prohibits it to be above five percent per year. In other words, a ban was not necessary if the interest rate compensated for the absorption of risk, e.g., the investor assumes the risk by making an investment, which he has financed by obtaining a loan. Furthermore, the interest rate below 5% is consistent with the position of the Catholic Church about this type of transaction. Based on these classical, but also proven their adequacy in time theories, in the new, very different conditions for business, are formulated and analyzed new theoretical formulations in the development of business ethics. It enables to assess the evolutionary beginning in the explanation of the dynamic relationships between owners and employees, between partners in the conditions of effective partnership for the realization of the specific goals of the business unit.

Theories in Ethics

1. Theory of moral hazard. Moral risk is a situation in which market agents, protected from potential risks, behave differently than if they were under the influence of a high-risk environment. According to Paul Krugman (2009), each financial market participant assesses its potential to take a potential risk in the context of informed choice. However, when a risk event occurs, if he is aware that he will not bear the potential losses resulting from the realized risk event, but will transfer them to other market agents, then the decision to act will not be difficult for him. A popular example from business practice is the provision of state guarantees for implementing public-private partnership projects, usually for infrastructure sites of strategic importance. Although such state guarantees are provided in a relatively complicated procedure by a decision of parliament, such solid protection can trigger the activation of guarantees and lead to taxpayers' costs. For example, government guarantees of financial guarantees by governments, central banks, or other institutions may encourage risky lending in the future if those who take risks believe they will not bear the full burden of potential losses. A similar flow of information occurs when both parties to a transaction do not have enough information about their business partners. The Bank’s credit committees make decisions for granting loans, but they may not have received information about concomitant risks with the possibility to stop hindering the systematic implementation of the loan agreement - for example, health, gaps in legal security, etc. The Commercial banks make contributions to the deposit guarantee funds, but the Bank goes bankrupt, the guaranteed deposits will be repaid by the fund, and if it has not attracted enough resources, as happened with Corporate Commercial Bank in Bulgaria in 2012) decision is an additional issue of debt. The big banks also experienced such risky behavior during the global financial and economic crisis, which turned out to have negative capital adequacy, i.e., they had distributed more loans than the amount of their own and attracted capital.
2. **Agency Theory.** First, the “Agency theory” of the principal agent shows how essential incentives are and of incentives' system are for the organization's functioning. The personal motive is decisive for the agent – as an ordinary person, such as a real estate agent, a company, such as an advertising agency. The agent performs a specific activity on behalf and at the expense of the principal, the owner. For both types of agents, we mention unique abilities that the principal does not possess. A contract usually regulates the relationship between the two subjects. It usually resolves the issue of avoiding conflicts of interest. The provision of incentives is the means of uniting the interests of both parties to ensure that the principal receives what has been agreed. The common goal of both parties is the maximum positive financial result. The relationship between two sides of obligation partners and being confident also regulates the issue of confidentiality. The issue of privacy is of particular importance to finance and accounting professionals because they have access to sensitive and valuable inside information. The Guarantees are sought that agents will not only store information but will use it for the purposes for which it is intended. The authors of the book “The New Clothes of the Bankers” (2013) [7] put the issue of an exit strategy from crisis events on the agenda. The reason for such considerations is the behavior of central banks during the global financial and economic crisis and the extent to which their belated response was able to reduce the losses from the financial collapse. In the financial markets, banks “Too big to fail” have accumulated significant resources, but the limited amount of equity has not fulfilled its protective role in limiting the risk they have taken on the real estate market. Here again, we come to the problem of symmetrical sharing of information between the parties to the transaction. Following the theory of efficient markets where all data is reflected in the primary information media, i.e., the market works. However, it will cause a general reduction in the income of all participants, because there is no market in which everyone can win. Noise in the system, however, can be caused by the pursuit of personal, selfish goals, as goods are always limited and not intended for all members of society.

3. **Diamond's theory of delegated monitoring.** Diamond (1984)\(^6\) proposed a theory to solve the problems caused by asymmetric access to information by affirming the role of authorized supervisors. For the expert audience, the theory is called “Delegated Observation Theory”. The essence of the theory is to establish a greater benefit if the investment community authorizes specialized institutions to carry out this authorized monitoring instead of doing so themselves. By “authorized supervisors”, the author of the theory meant banks because they have the necessary expertise for such a complex economic practice. Overcoming asymmetric access to information is a suitable method for increasing the effectiveness of interaction. Despite the general desire for the loan agreement to regulate in a sufficiently large number of details the possible risks that would prevent the successful completion and implementation of the transaction, each of the cases is individual. The standardized contractual forms developed by the financial institutions regulate the teaching of guaranteed profitability and provide appropriate sanctions in case of breach of contractual terms. It creates the necessary network of incentives to overcome the risks of moral and ethical threats.

The monitoring process includes a series of actions that combine monitoring changes and setting limits of reasonable risk that must not be overcome.

- Investment projects to go through an advanced analysis, evaluation and recording of each project regarding the threat of adverse selection.
- Prohibition to deviate from the chosen strategy for project implementation to prevent unwanted behavior.
- System of sanctions based on established non-fulfillment of signed commitments by borrowers.

As monitoring actions improve the effectiveness of agreements between creditors and borrowers with asymmetric information, they can be used by creditors themselves or by specialized companies: rating agencies, securities analysts, or auditors. The positive aspects of delegated monitoring can benefit financial intermediaries such as audit firms, financial analysts, credit rating agencies. The current trends in the development of corporate lending show that the most effective form of mutual monitoring, respectively the most effective monitoring, is direct lending in its modern forms B2B – (Business 2 Business), B2C (Business 2 Consumers), C2C (Consumer 2 Consumer).

4. **Rent-seeking Theory.** The widespread demand for rent in many socio-economic systems of almost all countries has attracted increased attention of scientists to the behavior of seeking agents in various spheres of society. The problems related to renting demand are particularly relevant for large semiPeripheral countries such as China, India, Brazil, Mexico, Russia, etc. According to many researchers, these countries are not yet among the economically advanced countries, and there is a vicious circle of inefficient economic systems “for

the category developing countries”). Annuity demand is an essential link in this “vicious circle” (Khan, M.H., and Jomo, K.S. ed., 2000).7 The growing return in search of rent or political influence has been known since ancient times. In the Republic of Rome, a prerequisite for engaging in income taxation of agriculture is the availability of sufficient capital that allows rich people to pay in advance funds to rulers and this allows them to collect taxes (Levi, 1988).8 Baumol (1990)9 notes that in medieval Europe, service to the government with the potential for illicit personal enrichment was a priority for the careers of very wealthy people. Engerman and Sokoloff (2002)10 provide numerous historical examples in which small wealthy social groups succeed in using the state to pursue their own commercial goals. The requirement of social status as a right to vote has influenced the structuring of political power on the American continent. Access to economic opportunities has affected long-term institutional development and huge inequalities (World Bank, 2003).11

Analyses show similar practical cases in which government officials and politicians own a business run by themselves or their relatives. Their positions do the protection of such enterprises from corrupt practices and other forms of misappropriation of resources. The link between wealth and rent-seeking in the context of an unequal start-up in protecting property rights is receiving increasing attention in the context of changes in Eastern Europe. The transition from socialism to capitalism and the market organization of society in the context of the privatization of huge amounts of state property (Hoff, K., Stiglitz, J., 2004)12, (Krastev, Vl., 2019)13 Empirical evidence and analysis of the processes in these countries suggest a link between rent demand, poor economic conditions and glaring income inequality. The costs of seeking rent as costs in the development of social processes can be qualified as lobbying (Stavrova, E., 2019); political activities; bribery and other “effects of influence” (Stavrova, E., 2020). The results of renting are acquired, preserved, violated economic rights that have been transformed into the creation of rent by redistributed licenses, granting of monopoly rights, subsidies, emerging property rights are given as examples of “rental results” usually.

The systematic demand for rent in many countries finally raises the question: what stimulates such behaviors in individual citizens? In many developing and transition countries, the rich mostly prefer rent-seeking occupations, such as public administration, the army, and the police, instead of engaging in productive and entrepreneurial activities. In other words, annuity seekers are precisely those who could otherwise become the first capitalists given their income opportunities. Initially, the rent-seeking theory began to develop within the Virginia School of Public Choice, whose members regularly published their work in the scientific journal Public Choice. The term “rent-seeking” has been introduced into the scientific vocabulary within that school. (Krueger, A.O., 1974).14 “Annuity-seeking activity” as well as “annuity-seeking behavior” are considered equivalent. Even the University of Virginia School offers a new wording such as “political economy of the rental society” as a compilation of “rent demand theory” and “property rights theory” (Eggertsson T., 2001)15.

The basic model of rent search theory was developed by Nitzan S. (1994)16 and Posner, R.A. (1975)17. Alesina A., Roubini N., Cohen G. (1997)18 analyze the demand for rent from political agents in the context of the political business cycle. The authors define rent demand as a negative behavior due to its consequences for the well-being of society, as a huge part of the resources received by rent-seeking agents are not aimed at increasing aggregate production. Taking advantage of the created institutional conditions, the created value refers to redistribution in favor of the respective agent.

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S. Chakraborty and E. Dabla-Norris (2014)\textsuperscript{19} developed a mathematical model of the annuity demand process and concluded that in the absence of protection of property rights, societies with more uneven distribution of wealth are characterized by small part of the people who can afford to search for rent. The model assumes that societies in which property rights are protected and inequality less, will have less polarization and higher economic performance. Thus, the dominant characteristics of rent-seeking behavior can be defined as:

- The negative impact on social welfare.
- The welfare redistribution area is concentrated around a small number of individuals and resource flows connect in interactions networks such as “patron-client”, such as bureaucracy, “capitalists”, politicians, ordinary voters who have access to information.
- Deterioration of the general moral background, setting a new kind of understanding of the processes of interaction between those who make decisions, have access to information and other members of society.

Therefore, the demand for rent is defined as the attempt of individuals or groups to increase their own well-being, while having a negative contribution to the net well-being of society. This means that some resources will not be consumed for production purposes, but to change the structure of property rights in favor of individuals or groups to receive them in the form of additional income.

Results and Discussion

The latest theories analyzed so far, explaining the behavior of human beings - owner, shareholder, customer or employee, and at each of these levels separately, is the realization of complicated connections and relationships arising in distributing final goods in production relations. These theories are unlikely to mark the evolutionary end of the science of business ethics. The provocations to which the persons' moral qualities - participants in the mentioned processes, are distinguished by the strength of impact, scope, and change speed. Universal digitalization tests the leading role of man in the relationship with the machine, and when unexpected changes occur, it is challenging to look for culpable behavior in the machine if it is known that man is the one who sets the rules. Human nature, with its inherent qualities such as individualism, selfishness, striving for quick results, hardly and with effort bears the weight of the opportunity for influence and, accordingly, directing the benefits-rents in its direction.

Conclusions

In this broad sense, we understand business ethics is applying everyday moral or ethical norms to business. Immediately the Bible comes to mind and the Ten Commandments written in it – principles that are still used by many in our time. The orders of truth and honesty or the prohibition against theft and envy apply immediately. The concept of management is also defined there and many other concepts that can be and have been applied to business. These first rules define human behavior sound relevant, but the science of ethics continues to develop, improving while complicating the relationship between economic agents, economic agents, and the state on resolving everyday production and social life cases. The relationships within the company, between the company and its customers, the investors in its capital undergo development and improvement. Material interest - both here and immediately, and in time, driven by selfish reason – the realization of income will pressure human nature and nature. And here is the role of science to show, to define the problems arising in this and get involved with possible solutions. A place that rightfully belongs to it.

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References


