Ethical Management Prevents Crisis

Milan Přibyl

Abstract: The management of many our companies is mainly carried out through monitoring of measurable, quantitative properties of business phenomena and volume of achieved short term profits in time. Companies under-estimate the dynamics of production growth and sales, and do not pay sufficient attention to regulation of fixed costs. It often causes firms many problems and may result in a crisis. There is a nationwide illusion of never-ending growth in demand, which creates the fiction that everything can be bought for cash or on credit. This view influenced the management of corporate and civic communities and assisted to the unwanted development of consumer society without feeling the need or responsibility to pay the back loans on time. Besides the lack of ethics in the company management, there is also lack of careful and detailed planning and system decisions. This is often manifested by managers that pay attention only to subsystems and their components but not to the business as a whole. Managers do not adapt themselves to the specific requirements of the enterprise. Decisions which can be considered as an application of stimulating innovation, should not only systematically and responsibly develop managers' own style of work, but also business behavior as a whole. People are the holders of ethics in management. Those, who identify themselves with the idea that ethics in management is necessary, and also in interpersonal relationships, have understood the future trend, which is the responsibility for the work results but also the interpersonal relationships. The target of this article is to draw attention to the lack of respect for responsible management represented by managerial ethics, innovation and creativity, systematic approach and leadership, and to appeal for the need to promote a comprehensive approach to this issue - innovation of management theory and practice.

Key words: Innovation of Management · Crisis · Business Ethics · Responsible Management · Corporate Social Responsibility

JEL Classification: M14

1 Introduction

Already in the 80's developed economies had begun to analyze and prepare innovations of theories and management practices and development in Central and Eastern Europe had created unexpected opportunities for businessmen. People, as creators and implementers of the changes in companies' development, seized new opportunities and conditions and adapted their business strategies to suit them. Unfortunately, they still based their management on more than two hundred years old theory – to maximize profit and minimize the embedded resources. This gave the green light to further deepening of consumer thinking, which manifested by a desire to use all opportunities to meet growing demand in personal consumption without increasing work efforts and even using unethical practices. The way to overcome the adverse consequences of consumer thinking and to increase management rationality and efficiency is in an innovation of the old theory. The current management philosophy has been used in business for almost two hundred years. This means that it lags behind society development. It is imperative that the managers become an example for their employees, but also that they take responsibilities for their work results. If the manager is not a good leader and does not apply his ethical attitude and his knowledge, it is not only his management work

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that is influenced, but also the social development of the responsibility for the quality of internal and external environment of the organization. Unethical behavior of the manager does not influence only the organization but also contributes to deepening of a consumer society. This help to expand the space for grey and black economy.

2 Materials and research methodology

The following research methodology is used in this article. I have defined basic concepts and theoretical bases, described the current status of a managerial approach to the examined issue of the responsible management and managerial ethics as an innovation process of management. I have compared the results of research focused on ethical problems in premier companies in the Czech Republic and abroad towards their stakeholders, on views of top managers on the importance of respecting the rules of ethical management and a responsible approach to management and the justifiability of unethical behaviour of employees in order to ensure the prosperity of the company.

The main objective of this research was to analyze the current situation in implementation and communication of managerial ethics, ethical management tools and management responsibilities in relation to stakeholders in the most efficient companies in the Czech Republic. The research is made by studying and analyzing the documents available in electronic form. The information foundation of research was mostly public documents. There were analyzed annual reports for the years 2009 and 2010 and the website.

The annual reports and websites of selected companies and institutions were analyzed and compared to see how they communicate to stakeholders:

- attitudes to responsible management and its implementation,
- ethical management tools and their use.

The advantage of this survey is mainly simplicity of access to relevant input data, cost efficiency and elimination of possible errors or distortion that may arise during personal interviews or testing. Evaluation of the results of the investigation was realized mainly by the research methods of analysis, synthesis and comparison. A disadvantage of the investigation may be a contradiction between how the selected companies report its activities in the field of ethics and responsibility and how these activities actually realize. Since the survey was carried out with analyzing the annual reports and the information on the websites, you cannot really eliminate the problem of discrepancy with reality and reporting. As the objective of the study was to explore if the selected companies acknowledge the importance of managerial ethics, responsibilities and how to communicate to stakeholders, this technique can be considered as relevant and optimal. Approaches to this problem have been compared with views and publications of foreign experts dealing with responsible management and managerial ethics, with Robert R. Trick from Huddersfield University Business School in Great Britain, Professor Udo Wagner from the University of Vienna in Austria and Professor James S. Harvey from the University of Missouri in USA.

In conclusion, I have made recommendations of how it would be possible to prevent crisis by innovation of management, a comprehensive approach to the issue of responsible management and managerial ethics, focusing on the performance evaluation of companies using quantitative but also qualitative indicators.

3 Responsible Management

Responsible management uses ethical thinking, a creative and systematic approach to management, especially in human resources. The opposite of responsible management is the stimulation to deepen
consumer thinking of people, which has a negative impact on business work and business climate of the company.

The current economy and social situation shows that the lack of ethics is harmful and confirms the fear from further development of market environment. Our economy is dependent on international commercial relationships which is why we need to improve ethics, not only on our, but also the foreign market, and we need to use our prestige to improve the corporate culture. Our companies are evaluated whether they could be considered as reliable partners. The lack of ethics in managerial work is also shown in the process of decision making when the manager believes that his decision does not have to have such high quality, because the size of the controlled object will not influence the development of the economical and social environment.

The adverse impact of a decision is not just a matter of controlled object economy, because it has been made within the organization that must be considered as a non-isolated system which influences the economical, social and political environment by its inputs and outputs. It is not just the matter of the manager's irresponsibility or the inappropriate decision that has been made, but also the fact that it could have an adverse impact on the cooperating organizations or the individual consumers. The manager's decision influences employees' activity and work motivation and it also creates an undesirable inspiration for the cooperating organizations and their employees.

The manager's decision could have an adverse impact:

- Non-existing strategy or strategic goals that do not match the organization options, or the tactics in the process of their implementation.
- Manager's incompetence or insufficient information about resolving the problem, the lack of analysis.
- Manager's bad decision on specific workplace conditions in which he works.
- Wrong or slow communication of decision to the addressee.
- Absence of a responsible approach of the addressee to creatively give the task to his subordinates.
- Lack of work motivation of the employees.
- The decision is not considered as innovative and it does not respect the rules of the innovation process.

The decision making is the most important operation of the manager; and it has to have quality and also a creative and professional approach for each vertical level of the controlled object. This can affect a decision positively and also negatively. Therefore, there cannot be an excuse that the wrong decision was made intentionally.

4 Innovation of Human Resource Management

Ethical management requires a responsible attitude not only in the process of decision making, but also in the process of its implementation. Company management should therefore be considered as management of innovation process, in which the rules are respected.

Each manager's decision changes the current state of the internal structural development in the controlled object differently. To increase the quality of decision making and the process of its implementation, it is important to see it as a desirable change of the current state, therefore as an innovation process. In this case, the manager's decision is seen as a stimulating innovation, which is implemented by the innovations of the employees at lower levels of personal management.

In the control of innovation process the manager uses his capabilities and allows his employees to make analytic expertise, communicates effectively with them and increases their motivation to improve their professionalism to suit to the company (Dýtrt & Stříteská, 2010). It is important to have
skills to organize and develop cooperation between the manager and other specialists, and to integrate their activities with the company's needs; this is expected from people managing the organization.

The need to increase the responsibility of management of individual organizations through creative innovation requires knowledge of the current situation, primarily of human resources management. It is necessary to highlight the responsibility for the work results of human resources, the effective economical development, the position of individual organization and the whole company in the economical environment. By using the experience of advanced management organizations, the person who is responsible for the employees' quality and professionalism is the person who recruits them and he is the one who is also responsible for their career growth. The responsibility is to choose an employee and monitor his activities in the organization and thereby create conditions for reducing the costs associated with fluctuation. The person who has this responsibility is a HR Department Leader.

It is a complex task that requires overcoming the routine of the current methods for stimulating the motivation, creativity and responsibility of the employees. This is true not only for the management of the internal environment of the controlled object, but also the relationship with the economical and social environment.

The people are responsible for changes in controlled objects, same as employees are responsible for welcoming the motivation to fulfill the organizations requirements. Therefore, emphasis is placed on innovation in human resources in the workplaces. The targets of the innovations in personal management should be delegating of rights and responsibilities, removing bureaucratic formalities and creating conditions to increase creative work.

According to Valenta (2001) creativity has the following components:
1. The ability to overcome the production or other activity situation in your imagination; the ability to imagine that things and relationships could be different then they are now.
2. The ability of invention; the ability to solve the new situation in things and relationships.
3. Ability to develop innovative courage to act and ability to take responsibility for implementing motivation.

The manager should not by his cavalier attitude towards employees' creativity push this creativity to oblivion. The manager cannot claim the right that he is the bearer of imagination and ingenuity, even if it is he who takes responsibility for the realized innovations. The use of creative abilities of the company staff is the foundation of the economy theory, which has been developing since the early 90's. It is the development of partnerships in the workplace, implementation of creative work and ethical attitudes in both horizontal and vertical structure of the organization. It is also the understanding of the importance of partnerships and their contribution to improve cooperation in the workplace and the company's status in the economic environment. It is a method of enhancing teamwork that puts demands on innovation of personal management, balanced relationship between stimulation and motivation of the employees and responsible work. The change of relationship between the employees and the employer contributes to the desirable development of the economy, business environment and stabilization of the social development in terms of the European Union. Holátopvá (2007) states that the base for continuous improvement of the management system is a qualified workforce that is motivated and has potential to participate actively in company improvement. Irreplaceable role in the development of ethical thinking plays a teaching course in business ethics at the University. It is not sufficient in itself to establish the ethical business culture, but it is one of the ways how to try to influence the next generation of managers (Cowton & Trick, 2000).
5 Comprehensive Approach to Innovation Management

The responsibility for implementation of new methods is not a finalized process. It is still necessary to overcome ingrained and outdated methods of a previous, deformed style of management work. The complex creative approach towards management innovation is not easily applied. It is the highest level of management innovation, in which all management and every employee has to be involved in. This is why we need to respect specific conditions of other companies and use comparison methods, when we are evaluating the results. The success of the innovative changes in the company management is influenced by the non complexity of the legislation and the irresponsibility of the individual components of public administration.

For the systematic presentation of the responsible management, we have created a graph of subsystems that show the construction of the responsible management. The application of a responsible management in theory and practice in individual organizations requires the development of individual sub-systems elements. It is a stimulation of adequate motivation of all employees, who have the task to control the innovation process within their activities and creatively implement it.

Figure 1 Responsible management.

![Responsible Management Graph](source: Dytrt & Collective (2012))

Figure 1 shows the complexity of this innovation. The responsible management should occur as an innovation of a still valid philosophy from Adam Smith era. Since that time the company has gone through fundamental changes, not only in content, but also in the field of sustainable business development.

The success of the responsible management requires a complex application of the management system, a balanced and comprehensive view of the individual sub-systems and relationships between them. The current emphasis is on enhancement of creative thinking and adequate performance of employees. The company’s management has to delegate rights and employees' obligations and emphasis responsibility for the work. The question is why the emphasis on innovation of current leadership skills. The answer is because the employees are the bearers and implementers of any changes in the growth process of efficiency and production quality within individual organizations and in the society as a whole. Since trust and reputation are so important in the marketplace, business should be responsible for ensuring that consumers and the public have confidence in them (Harvey, 2009). Creating an atmosphere of trust with open communication, where the standard is fully fulfill the promises and adhere to ethical principles, consider the assumption of responsible management. Responsible management in relation to the environment and inside the company is an important and unique element of building goodwill (Přibyl, 2010).
6 Ethical Management – Prevention of Crises

The way to overcome consumerism and to increase management responsibility is in the management of human resources and the motivation based on the satisfaction of personal and social needs by creative and responsible work.

The best prerequisite for a successful operation in the 21st century is the realization of an urgency and effectiveness of the change in thinking. Even this knowledge is an innovation not only in our personal approaches but also in everyday work and social life. It is a significant impulse to apply the managerial responsibilities and ethics in business and political sphere. Ethical thinking, as a prerequisite for ethical behavior, is a matter of people. It is dependent on them; how the company will be managed, how qualitative and creative the manager's decisions will be and of course how the company will behave in the competitive environment. Simply, the man is the creator of values.

The employee works in a way to create values that will provide his level of living and existence for his employer. It results from the quality of projecting the company's strategic target and its tactical fulfillment by its employees. The successful company strategy contributes to its culture, good reputation and stable position on the market. On the other hand, it is expected from the man, as an employee and a sub-system of the internal structure of the company, that he will fulfill the space with his professional and system approach for which he has been recruited. The employee creates values by his work and creative activity and ensures his needs.

Under these circumstances, we can divide the value structure of the employee in to two parts:

- Values that he necessarily needs for his existence and his profession - on these bases he can satisfy his living needs; it is obvious that all people's needs are different, unique and non-differentiable.
- The values forming the superstructure of the essential needs that are associated with his personal images about happiness and satisfaction.

They are important for both the employee and the employer, because they allow within the management to create a balance between the manager's stimulation and an employee’s motivation; we are talking about non-essential needs, which are unique and different according to various criteria. We are not happy just with satisfaction of necessary needs in the context of level of living and dynamics of social development. With the development of science and technology our demands for social development are increasing too. We require some "extras" to treat ourselves for the work of providing the necessary needs; individual consumption that makes our life better. It is a natural right to treat ourselves for the work effort, which should be proportionate to the responsible work performance. Often it happens that the requirements for "extras" do not correspondent with the employee's productivity and the contribution in the strategic organization efforts that participate in the state economy. The worker's requirements do not contribute to more qualitative satisfaction of needs and interests of the company and its economical and social environment. The employee then uses other methods, not the creative and productive work, to meet the extra needs; this act is constantly growing and starting to act as a drug.

If we do not monitor the complexity and rationality of managerial inputs and outputs within the company's structure, we then contribute to the creation of an unethical environment that effects people's thinking and acts as consumer behavior of individuals, organizations and the society. If the person is not responsible for his ethical way of thinking and behavior, then there is tension growing between his requirements and adequate resources. Which is how the ground for his consumer actions in the workplace is prepared. This brings us to another problem of management; the expression or measurement of inputs and outputs of the controlled object called "Enterprise". We can say
that the volume of inputs and outputs are displayed by indicators that reflect the value of extent and degree in physical or measurable units.

The moment when the essential consumption increases to become unnecessary consumption, i.e. consumption unsubstantiated by the growth of added value, essential consumption changes into inessential consumerism. Therefore, the responsible management, within the ethical business, is monitoring the relationship and the development of the both terms. What instruments can be used to avoid the consumer thinking of people and consumer behavior of companies? The answer is ethics, management creativity and positive innovation at work. Managerial ethics considers the company's management as managing of innovation process. The consumer’s thinking of managers is the result of inadequate application of ethics in management within the management structure of the company as a whole. Creativity and ethics are seen as positive innovations in management. It depends on mutual relationship and the connection of qualitative and quantitative values of the strategy, which the manager chooses to implement in the future, and also on the tactics that the manager and his colleagues will use for its implementation.

The absence of ethics in management is also influenced by objective conditions. For example, instability, lack of links between different rules and legislation limit future strategic activities of the company into just operative management. This often facilitates quick success, which in the future is only a source of economical and social complications. The pace of legislative revisions and introduction of reforms in management does not correspond with the dynamic economical and social development of society. The courts do not solve the discrepancies fast enough and the effect of punishment is lowered. The absence of ethics in management is dangerous, because it changes ethical thinking and social behavior into unethical, which is manifested by consumerism. Dynamics of consumer thinking is accelerating, because it irresponsibly increases demands of living standards without increasing productivity, which is desirable for ethical development, for example, requirements for higher wages and the product prices without increasing their added value. Wagner (2011) states that the stakeholders value is a long-term concept based on the trust between business partners. The process of building trust takes time, and in principle is never ending; it is supported by shared experience of stakeholders.

7 Discussion

Most research carried out worldwide, including the Czech Republic shows that many companies, even the most successful ones, do not pay attention to managerial ethics. According to Yuspeh (2001), only 16 companies from the Fortune 100 chart introduce the problems of ethics to their shareholders and also only 16 of them mention the topic of ethics on their websites. In Czech companies the level of views on the importance of ethical and social responsible behaviour are also quite unsatisfactory. The importance of ethics and responsible management is underestimated, which is demonstrated in the study analyzing the annual reports for 2009 and 2010 and websites of the 50 most important companies in CZECH TOP 100 COMPANIES (CZECH TOP 100, 2011) chart in 2011 and discovering that only 12% of companies have ethics explicitly mentioned as one of the company values, 50% do not include ethics into their values and 38% do not have any values mentioned on their websites or in their yearly reports (figure 2).
Another part of the research has been devoted to the ethical infrastructure that is created in the organisation by introduction of ethical principles, methods and tools that are essential for promoting the ethics and responsibility in management. Putnová and Seknička (2007) report that in the Czech Republic there are variable ethical codes used and now there are modern ethical tools being slowly introduced, such as ethical and social audits. This fact has been confirmed by the research and it is documented by the graph showing the application of selected tools of ethical management (figure 3).

**Figure 2** Defined values and their relationship to ethics

Source: Own processing based on research of 50 most important companies in CZECH TOP 100

The most used tools are code of ethics, education and training to act ethically. The research result also suggest the possibility of endorsing the view that a prerequisite for the implementation of individual methods and tools of ethics is the economic level of the company (Čanik & Čaniková,
2006), because there have been the strongest companies of Czech included in this research. It is assumed that at present the code of ethics will be introduced in top researched companies and they will inform their shareholders and customers about this fact. Though, it is questionable whether the nature of the reference about the ethics as a part of values or tools of ethical management is not only declarative.

**Figure 4** The lack of ethics has contributed to the current crisis.

The investigation focused on top management of Czech companies (Dytrt & Collective, 2011) which shows that the vast majority of respondents (70%) perceives the lack of ethics in business as one of the main causes of the current global crisis, 23% believes that the lack of ethics rather has not contributed to the crises and 2% expressed the view that the lack of ethics certainly has not contributed to the crisis (figure 4).

**Figure 5** Justification of unethical behaviour.

On the other hand, other results of the survey indicate that there is a lack of interest for management ethics and its importance is underestimated. The perception of the importance of ethical and social responsible behaviour is largely unsatisfactory; respondents' attitude towards ethical behaviour is still at a very low level. The survey even shows that companies still tend to profit even by using unethical measures; 38% of respondents admit justification for using unethical practices to
achieve the company's prosperity (see figure 5). Therefore, there rises a conflict between management priorities and efforts to overcome the consequences of the lack of ethics in management and thereby resist crises.

Even in other countries respect and the application of ethical principles and responsible management is not satisfactory, but in comparison the situation in our country differs, unfortunately, to our disadvantage. This fact is illustrated by the result of the survey "Transparency International" carried out by the Company GfK in 2005. The survey focused on adherence to ethical principles in business, and it compared the perception of representatives of Czech and British companies operating in our market. The table below shows the differences between Czech and British companies (figure 6).

**Figure 6** Comparison of Czech and British companies.

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<th>CZ</th>
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Unethical practices are disadvantageous in long terms
Unethical practices are advantageous in long terms
Unethical practices represent a competitive advantage
Unethical practices do not represent a competitive advantage
In my company there are internal ethical rules or other standards
Would punish unethical behaviour that favours the company

Source: Čaník & Čaníková (2006)

When we talk about management, we do not have in mind only the process of managing at top level of a company or an enterprise, but at all levels of management verticals. The experience applies, whichever way the top managers behave towards their subordinates, the subordinates behave among themselves and towards customers.

These results confirm that a significant cause of the global crisis is the lack of ethics in management. Businesses focused primarily on the evaluation of their performances by measurable quantitative indicators, instead of examining what measures were used to achieve these values. Even in theory there was not enough attention devoted to the creation of a system of comprehensive evaluation for the success of a business, which would also deal with the procedures that were used to achieve the quantitative results. Therefore, the process of promoting ethics and responsibility in management must be seen as a comprehensive management innovation, including not only ethics in management, but also creativity, leadership, innovative and systematic approach.

Not only in our literature but also in foreign literature, the issue of management innovation within the means of the principles of ethics and the responsible management is focused on only sporadically, and usually only partially. It typically focuses only on individual sub-themes, such as norms of behaviour, human resources management or a set of ethical principles, methods and instruments. Particularly in times of crisis, it is necessary to see the promotion of ethics and responsible management as a complex process of innovation; not to only solve this problem partially, because a non-complex approach to the application of the principles of ethics in management significantly reduces its effectiveness. Stimulating innovation within management can be considered as a responsible
attitude and as respect for ethical principles in a complex concept that is related to the defeat of the applied philosophy of shareholder management and to the change of management and business philosophy. Hence, it is expected that business ethics and responsible management will significantly help to slowdown and overcome the crisis.

8 Conclusion

Consumer thinking has become the drug for the society in this part of the world, where the high standard of living has allowed profligacy on one side and on the other an unbalanced relationship between man and his ambitions and efforts to implement his goals ethically and to work creatively. The application of ethics in management is not a fashion, but the revitalization of solid business, which can promote the creative thinking and quality work in this competitive environment.

The managerial ethics enhances the management transparency and helps to overcome non-complexity in deciding about strategy development of economic and social phenomena. To overcome the consumerism of the society, it is not enough just to change the management and business system, but also to respect the differences between the terms "consumption and consumerism". Therefore it is necessary to complete the current "management philosophy" with the ethical values that could anticipate consumer behavior of people, companies and the society. Responsibly managed company is the desired result of business that does not reduce its obligations in satisfaction of needs and interest of its stakeholders, but expands creativity and innovation of its employees and also improves the position of its production and thus wins within a competitive environment.

To summarize, the solution shows that innovation in the area of responsible and ethical management will increase prevention against the absence of qualitative values, which results in critical features such as non-transparency, consumer thinking and decision making.

References