

## **CONSIDERATIONS ON THE RELATIONSHIP BUSINESS ETHICS - CORPORATE GOVERNANCE IN THE KNOWLEDGE-BASED ECONOMY**

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### **ABSTRACT**

*Known is that legal entities in the knowledge economy presents a great complexity, bringing together a multitude of direct and indirect interests of the parties involved, as they have not only an important economic role, but also social, which brings to the fore avoiding or resolving potential conflicts by developing effective relationships with all those concerned. In this sense, in the context of the knowledge economy, it discusses more about the need to implement an effective solution for developing legal entities in the form of corporate governance. Studies show that corporate governance system ensures that there is a strong correlation between labor, management, ethics and responsibility in conjunction with national cultural values. The purpose of the rules, procedures, tools, policies, which corporate governance codes promote, is to increase the value of the entity and meet the interests of all parties. At the same time business ethics assumes that in the management strategies are used values, norms and principles of conduct, rules and practices that are beneficial to all those concerned: customers, partners, shareholders, community, environment and society. In other words, both concepts aimed at the same purpose, which shows that there is at least some degree of correlation between their forms of expression.*

**KEYWORDS** *Business ethics, corporate governance system, correlation, social responsibility*

**JEL CLASSIFICATION** *G 34, M14*

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### **1. INTRODUCTION**

Based on studies and research conducted in the field of business ethics and corporate governance, the underlying assumption of this study is shown by the fact that corporate governance is a level of business ethics. As such, a research was conducted on the relationship between ethics and corporate governance in the legal entities, based on the composition of the codes of ethics and corporate governance.

It is said that a reputation is built in 20 years and may be lost in an instant. The role of corporate governance is that reputation gained to be maintained through all system components of CG and Corporate governance codes and ethical codes. Moreover, the study on the composition of codes of ethics and those of corporate governance revealed that they do not differ greatly, they cover issues related to entity relationship with all stakeholders: customers, employees, suppliers and other partners, the community, managers, owners, state, competitors, etc.

Lately we see a real consensus on the objectives and significance of corporate governance as

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economic and organizational relatively recent phenomenon. Corporate governance is now effective solution that generates performance, transparency through the harmonization of relations between the parties. Currently, corporate governance is a modern way to run a business.

Also, during the economic crisis, interest in ethics and social responsibility increased because the companies are morally and socially responsible which provide security for employees, communities and society. Assuming ethics and social responsibility by different companies directly contribute to their development by capturing new markets through acquisition of new customers, increasing prestige and positive image among all stakeholders. In order to develop profitable partnerships, firm's moral and social responsible are the most searched by professionals (personal competence and performance) and the community. Business networks and clusters are generated by moral and socially responsible companies rather than other entities. Investments made by legal entities in assuming ethics and social responsibility produce effects at both material and psychological level.

Ethical and responsible behavior of companies to all partners ensures a high quality relationship with them, an increase in the relational stock of those companies as well as providing quality.

Therefore, more companies pay importance to the moral and social responsibility process. Obviously, the economic efficiency of the firm is not the only objective pursued, social efficiency comes to the attention of companies to the same extent (social responsibility towards employees, environment, stakeholders, community, etc.).

## **2. BUSINESS ETHICS AND SOCIAL RESPONSIBILITY IN THE KNOWLEDGE-BASED ECONOMY**

In general, all actions of economic actors are based on two cues, the law and morality. Obviously, the law is enforced and mandatory and morality is voluntary and necessary. Every individual must live pursuing the greater good. By analogy, companies must do the same. Morality is defined by freedom and responsibility. As such, the owners are free to do whatever they want with their property, but they must take responsibility for their decisions. In fact freedom means, primarily, assuming the consequences of decisions, i.e. assuming responsibilities. In business, freedom is manifested as the sum of the rights, powers and immunities relating to the possession and use of property, while responsibility assumed the amount of obligations and restrictions on property management.

This means that both shareholders (associates) managers and employees should be moral in all activities. Obviously, their morality depends on the intentions, honesty, values and resources that they use (Popescu, 2013). Although business ethics is a trivial or irrelevant issue for some people or a joke for others and some even expresses hostility towards the subject, however, assuming social responsibilities beyond the "making profits responsibility" by organizations business, is a goal for the knowledge based society. When discussing business ethics, involuntarily, it refers to the individual ethics (regardless of their position within the company), ethics in business, ethics in advertising, communication ethics, etc. There are other relevant issues associated with the concept of business ethics such as discrimination, equal opportunities, protection of personal data, security of person, freedom of expression, integration etc. This means that business ethics is not restricted to comply with the law; it requires respect for fundamental human rights.

These assumptions help *define business ethics in terms of ownership and management*. Managers have specific obligations to manage property toward *owners, interested groups* (employees, creditors, suppliers and customers) and the community, which entails limiting their freedom. It states that, in order to display ethical behavior, firms use some parts of their material, human, financial, economic and informational resources to achieve the objectives set in advance.

Known is the fact that, in management are three spheres of responsibility, arranged like concentric circles: in the center is settled the property and the shareholders, then the other groups involved and directly affected and, within the wider sphere is the society. Thus, can be identified also the major areas of business ethics:

- *Corporate Governance (CG);*
- *Oriented management to interested groups;*
- *Corporate Social Responsibility (CSR).*

Indicating that the latter two depend on the first, being *optional management strategies*, based on a legal framework that defines the basic principles of corporate governance, organizational practices developed by assimilating these principles.

Also, the economic crisis has revealed that in field of CSR as in business, firms must develop a proactive approach, i.e. to create the context and needed parameters to create effective social responsibility also business development. Firm relations with all its stakeholders must stand under the teleological sign, human factor being essential in CSR issues.

Obviously, companies make available to entities rules, laws and regulations to help them in operation and economical discharge of the legal framework. The companies will expect that those entities develop also ethical responsibilities. Honesty and integrity of entities in all the activities they carry out and in relation to all social groups they are in contact with represent ethical responsibilities from their part. Responsibilities by choice appear in areas where the company wants the entity to assume social responsibilities. Such areas are: training programs for the unemployed, programs to support community, actions in support of combat environmental degradation, urban and rural reconstruction activities, etc.

Ethical Responsibilities include additional components and activities that are not required by law, but are expected to be met by companies as members of society as a whole. These ethical responsibilities are not well defined, are often controversial and subject to change over time. Consequently, leading companies such hard identifies responsibilities.

Should be noted that is a close relationship between ethical behavior, social responsibility and professional culture. Any profession implies a combination of theoretical and practical knowledge, an ethics code governing relations between professionals and other people (colleagues, clients, friends, etc.), a highly specialized certain authority given by the respective professional skills a wide social sanction and approval regarding the exercise of authority and a professional culture. Generally, professionals are those who assume social responsibility both at individual and organizational level. Moreover, professions are those which have fueled the concept of social responsibility, which has become one of the accepted norms of business behavior.

The literature shows that if management culture enables assuming social responsibilities, then the entity behavior will be an ethical one. Managers and other personalities of a company may encourage or discourage an ethical behavior. Ethical culture of an entity leads to an ethical behavior. The presence or absence of ethical behavior of managers has an influence on company ethics (Hellriegel & Slocum, 2011). It can be said that, ultimately, social responsibility issues of entities depends on ethical standards of managers and employees.

### **3. SYSTEMIC APPROACH TO CORPORATE GOVERNANCE**

Corporate governance means the process of decision making and the process by which decisions are implemented within an entity. About corporate governance was told that is typical of American society, as in major U.S. corporations management has not defended the interests of major shareholders, which led to the bankruptcy of the respective legal entity Regarding the ancient origins of corporate governance, literature highlights the inseparability of corporate governance practices (CG) to the concept of enterprise (Pérez, 2012). Although corporate governance is closely linked to the management of an entity and to its structures, in the literature it is acknowledged the fact that this concept includes within its sphere important issues related to social responsibility and business practices.

The literature reveals that fundamental theories in corporate governance began with agency theory, extended in management theory and stakeholders theory and developed in the theory of resource dependency, transaction costs theory, political theory and theories of ethics such as : business ethics

theory, the theory of virtue ethics, feminist ethics theory, discourse theory and the theory of ethics postmodernism. However, these theories tackle the cause and effect variables, such as configuration of board members, audit committee, independent directors and the role of top management and its social relations rather than its regulatory frameworks (Abdullah & Valentine, 2009).

It can be argued that *corporate governance is that branch of economics that studies how businesses can become more efficient through the use of institutional structures such as the constitutive documents, organization procedures and legal framework*. This branch is limited, in most of the cases, to studies on how shareholders can ensure and motivate executives so that they receive the expected benefits from their investments. In this regard, corporate governance aims to induce high-level managers to pay their duties in such a manner as to ensure and protect stakeholders' goals within companies. So, the concept of corporate governance refers, to the same extent, both to how the corporation is managed and controlled in order to achieve predetermined objectives and how the system by which this entity interacts to stakeholders, protecting naturally their interests.

Known is that any system of government has three components: structure (the general meeting, the board of directors, committees and commissions, etc.), procedures (ways of action, means for performing an operation and so on in the form code) and behavior (of all stakeholders), found in interaction. Solutions of policy implementation and of corporate governance principles have taken the form of codes of good practice, i.e. corporate governance codes. Corporate Governance Code is defined in the literature as a set of principles and standards of governance but whose application is optional and not mandatory. In Romania, there is a code of corporate governance, conducted by Corporate Governance Initiative and the Economic Democracy in Romania and the Code of Corporate Governance - Bucharest Stock Exchange (BSE). The literature reveals flexibility CG codes in the sense that they set the goal of governance to be implemented by a company, but it has the freedom to adapt their needs system.

#### **4. CORPORATE GOVERNANCE CODES VERSUS CODES OF ETHICS**

Based on public available information at disposal of all stakeholders, disseminated through codes of ethics, CGC (corporate governance codes) and annual statement of corporate governance has been made a research of the relationship between ethics, communication and corporate governance. The research methodology was based on areas of interest previously presented, the importance of which has been established on the path of judgment, in conjunction with CG principles and the fundamental principles of business ethics.

Research objectives are subordinated to the fundamental purpose of analyzing the relationship between ethics, communication and CG. Based on analysis of OECD principles of CG, of communication and business ethics, were gathered information disseminated on the official website of the issuer in the form of codes of ethics, codes of CG and annual statements. The research methodology was based on direct observation method performed on documents and specific regulations of CG, available on website of analyzed companies. Also were used scoring methods in evaluating the existing relationship between ethics and CG, at each level of the analyzed entity.

The sample on which was tested the relationship between ethics and consists of six entities, the selection being representative considering the fact that few companies have taken voluntary corporate governance codes have codes of ethics or conduct. The six entities are: Aerostar SA, Antibiotics SA, Carpatica Bank SA, Transelectrica SA, BCR, ENEL SA.

Analysis of the correlation between codes of ethics and corporate governance codes revealed the existence of at least eight areas of concern, although many codes of ethics contain a separate section regarding corporate governance:

- compliance with laws;
- compliance with regulations;
- the rights of shareholders;

- relationship with other stakeholders;
- conflicts of interest;
- transparency;
- Communication;
- social responsibility and the environment.

Thus, an analysis of the documents necessary for the collection of information through observation method revealed the following:

- Aerostar S.A. and Antibiotice SA has no governance codes, but statutes and regulations, in which are not specified information on corporate governance structures (AGA, CA, executive management) and transparency, communication, accountability, conflict of interest, etc.;
- However, the two entities prepare annual reports on corporate governance, completing the "Comply or Explain" declaration of compliance or non-compliance with corporate governance principles;
- Code of Conduct and Ethics for Aerostar SA is not well structured, relevant items are: purpose, referral code violation, against retaliation policy, exceptions, conflicts of interest, the accuracy of financial statements, compliance with laws and regulations and obligations of employees and agents in the line of conduct and ethics;
- Antibiotice SA Code of Ethics include: values, principles, ethics and humanity, partner business ethics, fair treatment of employees and patients, the proper use of company resources to shareholders re4sponsabilitatea social responsibility;
- The other four entities issue a Code of Ethics, which has, generally, a suitable structure;
- Code of Ethics of Transelectrica presents a complete structure, renewed annually, including the set of rules by which has been developed an ethical behavior in business. Structure Code of Professional Ethics is the following: general requirements of conduct and behave with integrity, work-related obligations, conflicts of interest, giving / accepting gifts / favors / services, confidential information, participation in political activities, documents of the company, protect company property, the environment, the staff, the relationship with the community and external communication, relationship with stakeholders, transparency in business and ethical values;
- Annual Report of the Directors in Transelectrica SA include identifying data, audit of financial statements, statements on the report, prospects and those responsible within the company, the "Comply or Explain" key figures, mission and core values, important events of each financial year, perspectives and challenges, work context analysis company's overall assessment of the company (financial indicators, structure, personnel, capital market), corporate governance, corporate responsibility, control and internal audit, risk management, accounting and financial statements;
- Regarding BCR, the Code of Ethics has almost the same structure as the Code of Professional Ethics of Transelectrica SA, focusing on the relationship with customers, shareholders, the community, the transparency and communication on conflict of interest In addition some specific chapters stands banking: confidentiality, proper advertising, marketing and sales practices;
- Codes of Corporate Governance, voluntarily assumed, of the BCR and Carpatica Bank have all the characteristics CGC of Bucharest Stock Exchange;
- Regarding the Carpatica SA Code of Ethics, it is included in the Bank's Corporate Governance Code, in Chapter II of the corporate governance structure, indicating that it is part of the organizational culture;
- Although ENEL SA has a Corporate Governance Code, the Code of Ethics - includes a chapter on corporate governance structures in which the structures of corporate governance are presented.

Scoring method can be applied using the function below to determine the degree of relationship existing between ethics and CG, at each level of the analyzed entity, taking into account the

common criteria of both types of codes, and the importance given to these criteria on the basis of professional judgment and by ratings given to relevant factors according to the degree of detail and specificity of the criterion contents.

$$f(x) = \sum_{i=1}^n p_i (c_{ix} + c_{iy}) * \frac{50}{3} \quad (1)$$

where:

$p_i$  = significance level determined for each of the eight common criteria of corporate governance and ethics codes;

$c_{ix}$  = rating for each of the analyzed information from governance codes

$c_{iy}$  = rating for each of the analyzed information of Codes of Ethics

3 = maximum rating.

**Table 1. Criteria of importance given to the essential characteristics from corporate governance codes and Code of Ethics**

	<b>Essential Characteristics</b>	<b>Importance Criteria (%)</b>
1	Compliance with laws	10
2	Compliance with national regulations	10
3	Shareholders' rights	15
4	Relationship with stakeholders	15
5	Conflicts of interests	15
6	Transparency	15
7	Communication	10
8	Social responsibility and the environment	10
	<b>TOTAL</b>	<b>100</b>

**Table 2. The level of detail and specificity criterion content from code of ethics and corporate governance analyzed.**

<b>Percent</b>	<b>Semification</b>
0 (0%)	Uncovered / no explanation
1 (20%)	There is cod, but insufficiently described
2 (80%)	There is, and well treated.
3 (100%)	There is, well treated and detailed.

The analysis demonstrates a direct relationship between business ethics and corporate governance, namely corporate governance represents a level of business ethics.

## CONCLUSIONS

In a world of information technology, success is just a click away by a resounding failure or existential crisis. It seems that the reputation of an entity represents its most important asset, being influenced by social responsibility (56%), product quality (40%) or business fundamentals (34%).

Corporate governance is a development model, an effective management solution, in terms business responsibility to its partners (customers, suppliers, associates / shareholders, state institutions, external agents, etc.), community, public, economic, social entities, banking and financial institutions, society in general.

Corporate governance means the rules and practices governing the relationship between managers and shareholders of companies, as well as one with stakeholders such as employees, local communities, insurers' transparency, fairness and accountability. If the entity or associates /

shareholders, managers, owners or employees do not behave ethically, then investors and the general public, the community, society in general will not give credit to the business. Obviously, corporate governance is a development model, a solution to any entity, regardless of size and activity profile as the principles by the Organization for Economic Cooperation and Development appeal to all businesses to recognize and defend the interests of all stakeholders, including the legitimate interests and the need for information.

OECD principles oblige boards to be truly accountable to shareholders and to take actions that lead to high standards of corporate behavior and ethics. If stakeholders are adversely affected by the actions of companies, the shares of companies will suffer. The board members who recognize the value of a holistic approach to stakeholder commitments, mainly in the social or governance, are on the same side with the owners of capital.

Obviously, companies, entrepreneurs, managers, employees know that a profound social conscience of an entity increases its profitability. Especially since every entity is measured by economic performance, social and valuing their contribution to society in general.

In this context, the concept of governance is necessary to apply all legal entities, regardless of size, stock or financial results. Corporate governance, on the one hand, contribute to the entity providing goods and services necessary to society, and on the other hand, to development of natural settings, social, cultural, economic, community, organizational and societal implications of providing and growth and material welfare. Moreover, the study comes to prove the idea that entities should take into account all circumstances, the set of ethical values, moral essential for achieving high performance in the long term, which gives this scientific approach future research direction regarding a model applicable to all listed entities code of ethics, in conjunction with the implementation of a corporate governance code, their simultaneous existence being required.

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