

Unethical Behavior and Business Culture: A Case for Business Ethics in Hungary

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Abstract: This is an opinion paper based on a literature review in the field of business ethics. Internationally, business ethics has been a maturing discipline since the 1970's, while in Hungary, with a few prominent exceptions, it has been a largely neglected subject in the business and management discourse. It is argued that these domains cannot be value-free, and issues related to Hungarian business culture could be addressed by placing a greater emphasis on ethical implications in research and education on these fields.

Keywords: business ethics, business culture, social traps, crony capitalism, enactment of moral change

Introduction

Business ethics as a concept was an oxymoron a few decades ago [7] but in the last two to three decades there has been a growing interest in the academic literature about concerns of ethicality in business. The large corporate scandals, such as those of Enron, WorldCom, Volkswagen and many others have seemingly attracted interest from researchers globally, as they are very often referenced in high quality journal articles and books in the now established field of business ethics [9].

In mainstream economic schools, business is often thought of as value-free [26]; this is perhaps best illustrated by the so-called Friedmann doctrine: the business of business is business [12]. However, prominent scholars have argued that business at the very least needs to have ethical considerations, but it should rather be fundamentally based on ethical principles [34]. Having studied in business schools in my graduate and undergraduate studies, I have witnessed how the mainstream approach provides the foundation of business education in Hungary, and how people with such education become fundamentally resistant to propositions that question this foundation. This can be a problem though, especially in a society where the institutions of the market economy are not well established, and the purely self-interested behavior of the supposedly rational economic agents can lead to socially undesirable outcomes for all.

In this essay, I argue that there are some serious problems that can be considered as cultural phenomena in Hungarian business life and increasing activity in business ethics education can be one way to start addressing these issues. I first give an overview about business ethics in an international context, then I turn to the concept of culture in business, focusing on a problem-centered approach in trying to decipher Hungarian business culture, and then I present my arguments for placing more emphasis on business ethics in business schools.

1 Business Ethics

In this section I discuss what business ethics is, using the conceptual framework of De George [7]. De George identifies three separate strands of how this term can be understood. The first is a general “ethics-in-business”, which means thinking about moral issues related to business. This is something that has existed way before business or even economics became accepted disciplines, and its two somewhat separate branches are grounded in philosophy and religion. The second strand is business ethics as an academic discipline, and the novelty in this strand that started to develop in the 1970’s was that it aimed to study ethical issues in business in a systematic way. The first branch of this is the normative approach, based on using philosophical frameworks to understand and address the ethical issues, while the second branch is descriptive, based on social scientific approach. The third strand can be understood as the incorporation of ethics to business, and it refers to regulation of issues with high moral content. This can take the form of government regulation, codes of conduct, ethical boards, ethics officers, ethical training programs, but we can also list the institutionalized corporate social responsibility (CSR) of corporations as part of this strand. This classification of business ethics is illustrated on Figure 1.

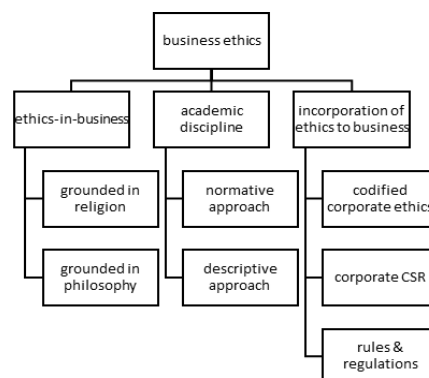


Figure 1
The classification of business ethics, based on De George (2006) [7]

In this essay, I use the concept of business ethics to refer mostly to the second strand described by De George [7], although I believe that these strands are also highly intertwined, and there are overlaps between them. Business ethics thus can be defined as an enterprise that deals systematically with moral issues in business and is different from mainstream business and economic schools in its basic axioms. Within this enterprise there are two generally distinct approaches, a normative/critical and a social-scientific/descriptive approach [10]. The former is usually more theoretical, being close to applied ethics in philosophy while the latter is empirical with strong ties to cognitive and behavioral psychology. In this sense business ethics does not have an established paradigm, as defined by Kuhn [21] and its two distinct approaches can be understood as research programs as defined by Lakatos [22].

The Business Ethics entry in the Stanford Encyclopedia of Philosophy provides a good overview of the normative approach to business ethics [23]. This branch of business ethics deals with the moral agency of corporations, the ends and means of corporate governance, the relationship between firms and their customers, firms and their employees, and firms and their environment. Also, there are different philosophical frameworks that are applied to assess these issues, such as Aristotelian virtue ethics, Kantian deontology, Rawlsian view of justice as fairness and also utilitarianism that is interpreted in a much broader sense than in the mainstream business discourse.

An earlier review by Treviño et al. [29] and a more recent one by Tenbrunsel & Chugh [28] summarize the most important themes in the descriptive branch of business ethics that is also referred to as behavioral ethics. One subject here is the self, and specifically how individuals view themselves in relation to ethics and morality. Key concepts in this line of research include self-threats, moral disengagement, depletion and the slippery slope of unethical behavior. Another topic is the intentional and unintentional nature of unethical behavior, that is built on the dual-process model of human cognition. The question here is not whether unintentional ethical behavior based on automaticity exists, but how this can be mitigated. Ethical and unethical behavior is also influenced by one's environment, be it social relationships, organizations, or economic factors.

Has the proliferation of business ethics, as a scholarly discipline contributed to making business globally more ethical? Brenkert [5] argues that this is not necessarily the case, and that the ever-present ethical problems of business remind us, that the impact of business ethics research on practice has been limited. He points out that there is a large gap between norms formed by the academic business ethic community and the majority of practitioners doing business. It is especially difficult to achieve results on a global scale, since there are no globally accepted moral standards of conducting business. However, corporations that dominate the world of business, can have a negative impact through propagating "unethics" [35], but they can also have a positive impact by disseminating positive norms and values as described by Witzel [33]. Witzel argues that following high

ethical standards is ultimately beneficial for firms and encourages leaders to embed ethics as a fundamental basis of their organizations.

2 Hungarian Business Culture

The role of culture in business as a research topic is also relatively young, with the most cited scholars of the domain having written their groundworks in the 1980's and 1990's. Studies about culture can be divided into two larger categories, the first looking at the micro level, with organizational or corporate culture as their main subject (e.g. [8], [25]), and the second focusing on the impact of national culture on business (e.g. [17], [30]). One way of understanding business culture in Hungary is using the frameworks of the latter group, and I turn to this first.

The Hofstede model [7] describes 6 dimensions that best describe “the collective programming of the mind that distinguishes the members of one group or category of people from others” [17, p. 5]. The dimensions are power distance; individualism versus collectivism; masculinity versus femininity; uncertainty-avoidance; long-term versus short-term orientation; and indulgence versus restraint. If we look at the data that is available about Hungarian culture based on this model [18], we find that scores of individualism, masculinity and uncertainty avoidance are really high, while power distance and long-term orientation scores are average and the indulgence score is rather low. To put this into perspective, other Eastern European EU member countries that went through the transition from a planned economy to a market economy in the 1990's (Czechia, Slovakia, Poland, Romania, Bulgaria, Slovenia, Croatia) score similarly in several dimensions, but they usually have a substantially lower score in the masculinity and individualism dimensions. However, these findings have been challenged from a methodological perspective, and other culture surveys have found remarkably different results in some dimensions [11].

Trompenaars [30] has a similar approach, but uses different dimensions in his culture model: universalism versus particularism; individualism versus communitarianism; neutral versus emotional; specific versus diffuse; achievement versus ascription; sequential time versus synchronous time; and internal direction versus external direction. Here, Hungary is rather universalist, neutral, specific and achievement oriented, but again these results are disputed by other researchers [11].

This descriptive information can be useful if we want to compare certain countries, or if we want to prepare a particular business measure in a certain location, and we want to make sure that they are not completely clashing with some general cultural trait in that location. For example, if the HR department of a multinational company wants to introduce a 360-degree feedback system, it has to do that very

differently in a country with high power distance compared to a country with a low score in this measure. For my purposes in this essay, however, we need a different approach of looking at culture. Definitions of culture often contain an element that concentrates on how a community (whether it is a corporation or a nation) solves its problems (e.g. [25], [30]). Based on this, I will continue with focusing on problems that business in Hungary is facing.

Hankiss [13] discusses in detail the problem of social traps, and how they are present in the Hungarian social, political and business communities. His level of analysis is societal, but I believe that it resonates well with how businesses operate in Hungary and has important implications on this level as well. Social traps are self-perpetuating mechanisms that are out of the control of the community; they are the consequences of the pursuit of narrowly defined self-interest by the members of the community and they result in loss of welfare for the whole community. The tragedy of the commons [14] is a perfect illustration of such a trap, where it is the rational narrowly defined self-interest of each herdsman to keep adding more animals to their herd while it is slowly but surely leading to the degradation of the commons thus resulting in the loss of welfare for each individual.

According to Hankiss [13] Hungary in the present is full of social traps that prohibit welfare and growth for many. Historical heritage of Hungary is one of the starting points, as there have been many decisions, behaviors, trends and traditions that led to the constantly lagging development compared to Western Europe. Then there is the lack of a clear mission or at least some sort of positioning on where we want to be in the future. This has led to a general view in society, and in business that we are playing a zero-sum game. If one wins, the other has to lose. And as we have seen above, if the game is played this way, at the end everyone will be worse off. One of the worst manifestations of this is rampant corruption.

Corruption, if narrowly defined, refers to the misuse of public office, but it can be understood in a wider sense as the misuse of any entrusted authority to achieve private gain. In this sense, the irresponsible behavior of business manager that leads to the bankruptcy of a private firm can also be corruption. As Hankiss [13] describes the greatest danger in corruption is that it leads to the formation of “neurosis”, when people believe that corruption is the norm and this is how the world – especially the world of business – works. This general belief weakens the “immune system” of society, destroys integrity, and makes ethical behavior look naïve, pointless or even stupid.

Another important dimension that describes Hungarian business culture is its relation to the state. It is common knowledge, that Hungary had a socialist economy before, and transformed to a capitalist system in 1990. Kornai [19] posed the question 17 years later, if there really was a transformation, and based on data, his answer is a clear yes, but he also points out that this transformation was very rapid on a historical scale, and therefore people’s adaption to the new capitalist

system was and still is encountering difficulties. In a more recent book [20], Kornai discusses the changes in the economic and political environment that happened since 2010, and he concludes that Hungary's economy is capitalistic, but the political system is what he refers to as an autocracy. In such a state, the relationship between economic actors and the political leadership is different from what can be observed in liberal democracies, such as the United States or most Western European countries. There is a larger division between companies that are favored by the government and those that are not, which creates an unlevel playing field, and inspires behaviors that are different from the predictions of economic and social theories that were developed based on western societies.

The narratives about business in Hungary are also relevant. Szerb and Kocsis-Kisantal [27] provide empirical evidence that entrepreneurs, who in a Schumpeterian sense are the main drivers of the development in a capitalist system, are usually depicted very negatively in Hungarian public discourse. As they describe, risk-taking, innovativeness and self-provision were not considered values in the socialist system for generations, and those who were socialized without these values were suddenly operating in a system, where these values should have been the keys for success. Also, the lack of experience from the part of the regulators made it possible for many individuals to acquire wealth in a way that would certainly have been illegal with a properly functioning regulatory system. This has led to the formation of the stereotypes about entrepreneurs and businesspeople, that create a vicious cycle by decreasing trust in these people, which leads to increasing bureaucracy, which in turn leads to inefficient economic mechanisms, which motivates entrepreneurs and business managers to find loopholes in the system, which in turn strengthens the narrative about them as shifty, immoral individuals that do not respect the law.

3 A Case for Business Ethics in Hungary

The previous sections make it clear that the question for Hungary is not if there should be more emphasis on business ethics but on how this could and should be achieved. If Hungary is ever to catch up with the societal achievements of Western Europe, the business culture needs to be transformed dramatically, and business ethics can lead the way in this.

Let us look at the current situation of business ethics as an academic discipline in Hungary. We can say that, with a few prominent exceptions, business ethics does not have an active considerable representation in Hungary today. On the undergraduate (BA/BSc) and graduate (MA/MSc) level, business ethics courses are usually either missing from, or are only optional parts of curricula in the large business schools (e.g. Corvinus University of Budapest, Budapest Business School, Budapest University of Technology and Economics, University of Pécs).

Courses related sustainability and CSR do occur somewhat more frequently, but they are also not integral part of the programs that are supposed to train future business managers. Regarding academic publications in Hungarian language that relate to business ethics, we can find a similar scarcity. After a search in the database of the Hungarian economic/business journals that are rated A or B by the Economics Section of the Hungarian Academy of Sciences, it has been found that it is almost exclusively the Budapest Management Review that has published business ethics related articles in the last decade (e.g. [2], [6]). Again, if CSR is considered as part of business ethics, then the list of publications is a bit broader, but still far from being in the mainstream.

As mentioned in the previous paragraph, there are some notable exceptions though. The Business Ethics Center of Corvinus University of Budapest, led by professor László Zsolnai has engaged in high quality, internationally relevant research for more than 25 years. Their achievements include acting as an organizer or co-organizer of 17 international conferences, 250 scientific publications, 144 conference and workshop presentations, and several courses developed and taught at Hungarian and other European universities [36]. Another noteworthy development is the activity of the Pallas Athene Books publishing company, that translates up-to-date economic and business books to Hungarian language, and in less than two years they published two books that are directly about business ethic [4, 33].

Initiating more academic activity in business ethics is far from being the solution to the issue of widespread unethical behavior in business, as it is pointed out by Brenkert [5]. There needs to be a plan for the enactment of moral change, that fits into the economic, social and political environment. But this plan has to be constructed somewhere, and it is argued here, that the starting point could, and perhaps should be the academic community. As Hankiss [13] points out, in the years since 1990 there has been a confusion in terms of what political and economic system model Hungary should follow and consequently what social values in business are to be respected and widely enforced by the general public. Right after the fall of the socialist regime, the country seemed to move towards a neoliberal ideology, where the market takes a primary role and close-to-laissez-faire rules apply. But after a few years, when the negative sides of such a system became painstakingly visible through to high level of unemployment and unequal distribution of wealth and income, there was a strong nostalgia for the years when Hungary was the happiest barrack, and populist slogans against the free market became more and more popular [20]. There is no quick fix for this confusion of values and the crony capitalism that exists today in this country, and this is why the focus should be on the long-term goal of establishing clear values in business. Universities can not do this alone, but they can certainly contribute by establishing, representing and cultivating values in future businesspeople.

Business schools can have counterarguments on why they cannot engage in such an enterprise. First there could be the argument that the function of universities is

to spread knowledge, not values. This is surely not possible today however, when a large proportion of teenagers and young adults spend years of their lives at universities, and this inevitably makes it part of their socialization process [15]. Universities will convey values to students, the question is only whether business schools take the responsibility to engage in the deliberation of what these values should be in their case, or they leave it to the students to deduce whatever values they can from the principles of business and economics that they are taught. Second, it can be argued that the students with a business degree need to find their way in today's business environment either on the labor market or as entrepreneurs, and business ethics training does not provide what is demanded by this environment. This may be true, but it is also shortsightedness, if universities just want to produce what the labor market currently demands [1].

There could be several other arguments for and against increasing emphasis on business ethics in Hungarian business education, but the main point here is this: even if there is no strong empirical evidence that business ethics training has immediate impact on unethical behavior in developed western societies [32], those who train the next generation of businesspeople in Hungary have to realize that ethical considerations in business must be addressed in a systematic manner if we ever hope to improve our business culture. And, as discussed in the first section, this is exactly what business ethics as a discipline (the second strand) does. I would argue, that the ethics-in-business approach (the first strand) is not enough, as people make moral judgements about every aspect of their lives, including business, but if their moral compass is not functioning properly, these judgements will not lead to socially beneficial behavior. On the other hand, the incorporation of ethics (the third strand) will also not be effective, if it is not backed by genuine belief in the good of business ethics. For example codes of ethics at corporations may be ineffective or may even be counterproductive in terms of ethical behavior, if they are not suitable for the context in which they are introduced [16].

Conclusions

Business ethics can be understood in different ways, and in this essay I followed the conceptual framework of De George [7] that describes three different strands of business ethics: the general ethics-in-business approach; business ethics as an academic discipline; and the incorporation of ethics into corporate regulation and codes. There is no overarching agreement that the development of business ethics as a discipline had tangible impact on business, especially on a global level [5], but there are several researchers who argue that ethics pays [3, 31] while others argue that having an emphasis on ethics in business provides long term benefits that may or may not be measurable in monetary terms [24, 33].

I have argued, that Hungarian business culture has some glaring issues and that an increasing role of business ethics could foster the needed improvement in this regard. One can describe culture with descriptive data, but I have focused on an approach which looks at the problems that businesses face in Hungary. Business

organizations have to form certain attitudes and behavioral strategies to cope with these problems and this shapes the overall business culture of the country. Based on empirical data [27] and the assessment of renowned experts of different disciplines [13, 20] we can see that unethical behavior is pervasive and entrenched in the practices of economic actors on all levels. Increased emphasis on research and education of business ethics is not going to solve this problem alone, but it can help raise awareness and it might cultivate values and ideas in the future generation of business leaders that are largely neglected today.

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