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# **Business Ethics in the Czech Republic**

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## **ABSTRACT**

This study investigates business ethics (BE) in the Czech Republic as perceived by managers and non-managerial personnel from Czech companies, through a questionnaire survey conducted on a sample of Czech private and public organizations. Namely, we focus on the following areas: 1) the management of BE in Czech organizations, 2) Czech managers' opinion of BE practices in their industries, 3) managers' previous experience of ethical conflicts, 4) the factors influencing (un)ethical decisions, and 5) respondents' perceptions of the current level of BE as compared to ten years ago. We find that majority of organizations are aware of BE issues and are making effort to enhance BE in their organizations, for which they most commonly use corporate philosophy, code of ethics, and contribution to social/cultural activity. We report prevailing discrepancy between small and medium enterprises (SMEs) and large companies, which are more active in promoting BE. When making their ethical decisions, managers are most strongly influenced by their personal code of ethics, while personal financial needs and lack of company policy are viewed as the strongest factors in making unethical decisions. Slightly over a half of respondents have experienced an ethical conflict in their career, most often related to honesty in internal communication, offering bribes, and honesty in executing contracts and agreements. Unethical practices seem widespread, with bribing, unfair competitive practices, breaking or violating contracts and unfair pricing practices seen as the most problematic issues. The respondents think that ethical standards have worsened compared to ten years ago. Our study also tentatively suggests that BE is increasingly beginning to be seen as an internal issue.

*Keywords:* business ethics, Czech Republic, transitional economies, managers' perceptions

## I Introduction

As the title suggests, this paper focuses on the investigation of business ethics (BE) practices in the Czech Republic. The Czech Republic is a middle-size Central European country, which, along with other ex-communist countries, became a new member-state of the European Union in 2004. Due to its unique geographical position (location in the centre of Europe) and other comparative advantages such as highly educated workforce, the Czech Republic (CR) has become a popular site for foreign companies to locate their regional representations in. Despite its relatively small economic size<sup>1</sup>, the country has thus become an important business crossroads for many European (as well as global) companies.

The entry in the EU in May, 2004 brought the need to harmonize local standards and legislature with those of the EU and also highlighted the importance of anti-corruption measures, corporate social responsibility (CSR) and BE issues. It is a sad fact that post-communist countries as a group do not enjoy favorable reputation in relation to ethical environment, and corruption and BE have thus become an important issue for any foreign companies envisaging to bring their business to Central Europe or the CR. As Čaník and Čaníková (2006) document, among the EU economies, the Czech Republic is generally perceived as less ethical than old-member states (e.g. France, Germany, etc.), but at the same time more ethical than other newly accessed countries (e.g. Poland or Hungary).

As an open economy, which is highly dependent on export, the Czech Republic must pay attention to its international reputation. Since the reinstatement of the market economy in 1989, Czech companies as well as government officials have gradually realized that BE is an important factor influencing the overall quality and thus also international attractiveness of local business environment. Combined with increasing international competition, the fact that foreign companies often express their fear of the existence of unethical practices in the country as they see them as a potential, has only served to highlight that the Czech Republic cannot afford to lose any potential investors or business partners because of their fear of low level of BE in the country. Although some Czech managers still tend to think that, especially in short-term, unethical conduct gives competitors an advantage over other companies (Trnková, 2004), they are becoming increasingly aware that in the long run, ethical attitudes bring companies more benefits than costs. This attitude is becoming more common and the number of initiatives and organization dedicated to the BE enhancement as well as general attention paid to BE has recently been growing.

In view of the growing significance of BE in the Czech Republic, this paper investigates BE in the Czech Republic as perceived by managers from private as well as public organizations located in the CR. This study focuses on managers' perceptions of BE in five main areas: 1) the management of BE in Czech organizations, 2) Czech managers' opinion of BE practices in their industries, 3) managers' experience of ethical conflicts, 4) the factors influencing (un)ethical decisions, and 5) respondents' perceptions of the current level of BE as compared to ten years ago. Our research is based on a questionnaire survey conducted on the sample of 60 Czech companies, evenly distributed among various industry groups and company sizes. The questionnaire consists of two main parts, the first of which includes theoretical questions related to BE in the above mentioned areas. The second part includes four hypothetical

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<sup>1</sup> Czech population in March, 2010 was about 10,500,000 inhabitants; 2009 GDP per capita 18,971 PPS (Purchase Power Standard). Czech Statistical Office, <http://www.czso.cz/>.

situations where the survey participants were asked what they would do in given situational context and what they think an average manager would do. These hypothetical situations make it possible to verify the responses to the more theoretical questions included in the first part of the survey and see how managers perceive themselves in comparison to what they consider the ‘average manager’.

It is important to note that, as is the case of any questionnaire survey, the opinions we have been able to elicit in this way reflect the respondents’ *subjective* views. Hence, it is possible that the answers we have obtained are subjectively biased; indeed, it is quite probable considering the Czechs’ national feature of assessing their own country with a large amount of skepticism and the tendency to view things worse than they are<sup>2</sup>. Despite that, we believe that our results have enough validity and bear significance for our understanding of Czech BE. After all, even businessmen and managers are just human beings, who, despite their training, do not always behave as ‘homo economicus’, but often base their decisions on their own, subjective, understanding of the situation.

Our study contributes to the BE field in several respects. First, our findings can be used by any organizations, institutions or initiatives having the promotion and enhancement of BE as their goal<sup>3</sup>. More detailed knowledge of how BE is perceived by local managers is an important factor, which can help them target their effort and increase the effectiveness of their BE related activities. Second, this kind of information significantly facilitates the entry of foreign companies and investors in the Czech market, as they can get a more accurate perspective of local business environment<sup>4</sup>. This can, in turn, help improve international competitiveness of the Czech Republic through increased trust and improved international reputation. Furthermore, our study can also prove valuable to Czech business managers (businessmen) themselves, because it gives them a chance to verify their own views of Czech BE, which are to a large extent formed on and biased by their personal experience. In this respect, our study is especially important as Czech managers often report lack of specific BE information related directly to the CR. Finally, our study can also serve as a teaching material for educators, who still often rely on materials from abroad, as BE is still a very new subject at Czech universities.

We find that majority of organizations are aware of BE issues and are making effort to enhance BE in their organizations, for which they most commonly use corporate philosophy, code of ethics, and contribution to social/cultural activity. We report prevailing discrepancy between SMEs and large companies, which are on average more active in promoting BE. Feeling most responsible to customers, employees, and stockholders, in making their *ethical* decisions managers are most strongly influenced by their personal code of behavior and company policy, while personal financial needs and lack of company policy are viewed as the strongest factors for making *unethical* decisions. Slightly over a half of survey participants have experienced an ethical conflict in their career, most often related to honesty in internal communication, offering bribes, and firings and layoffs. Our results suggest the existence of a

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<sup>2</sup> For illustration, the survey of BE in the Czech Republic conducted by GFK, Prague in 2005 demonstrates that British companies are much more optimistic of Czech business environment than Czech companies (Trávníčková, 2005).

<sup>3</sup> Transparency International CR, Business Leaders forum CR, AISIS, VIA Foundation, CG Partners, SCR Consults, Ethical Forum of the CR, etc. can be named as the examples of such organizations.

<sup>4</sup> It is well known that the uncertainty implied by insufficient knowledge of local business practices, and among them especially those related to ethical issues or legal aspects of doing business, is an important factor for companies in their decision about the location of their investment.

gap between theory and practice, as the answers to situational questions reveal that respondents own ethical standards are not in reality as influential as they report. Unethical practices seem widespread, with bribing, unfair competitive practices, price discrimination and unfair pricing practices, and breaking or violating contracts seen as the most problematic issues. The number of survey participants thinking that compared to 10 years ago ethical standards have worsened at present is higher than the number of respondents who view today's ethical standards as better. Our study also tentatively suggests changing understanding of BE, which is beginning to be seen more as an internal issue.

The rest of the paper proceeds as follows. The following section briefly discusses the development of the CR since the Velvet Revolution in 1989 until present, and shortly summarizes existing studies related to Czech BE along with their major findings. Section III provides overview of the methodology and sample descriptive statistics. The analysis and the results of the study are provided in Section IV. The paper is concluded in Section V, where the most important findings of this study are summarized and discussed further.

## **II Evolution of BE in CR since in Post-communist Era and Prior Studies**

BE in the Czech Republic is still a relatively new topic for scholars as well as researchers. The main reason lies in the fact that until the Velvet Revolution in 1989, Czechoslovakia<sup>5</sup> was a communist country with a command economy system, meaning BE virtually did not exist (for broader discussion on the challenges Czech modern history and transitional process brought in the field of BE see Bohata, 1997; Cordeiro, 2003, Barclay and Smith, 2003, or Brown et al., 2003). During the transition period following 1989, market system and market principles were gradually re-introduced in the country, with many systemic changes happening relatively quickly over a short period of time.

Apart from systemic and other changes the country had to undergo since the fall of communist regime, the Czech Republic has also gone through several stages of BE development. With some delay, the evolution of BE more or less copied the phases of Czech economic transition, strongly influenced by the accession process in the EU. The first phase lasting from 1989 to approximately mid-1990s is typical for its fast pace of changes, underdeveloped legal system and turbulent business environment. During this stage most business subjects were adjusting to new market environment, re-learning how to operate in market economy. As they were mainly concerned about economic survival, they displayed very low or no interest in BE. After that, as the country entered so-called **know-why** stage (Trnkova, 2004) covering mainly the second half of the 1990s, BE started receiving more attention. Czech business environment gradually stabilized and reached such a level of maturity that created space for businesses to focus on issues not directly related to short-term economic goals. Also alerted by corruption scandals involving main private as well as public personalities, companies began to realize the importance of ethical and trustworthy behavior in business relationships. However, due to the lack of deeper and systematic understanding of BE (as well as CSR), local firms still needed to become aware of the benefits related to ethical conduct and find motivation for its systematic development. It is at this stage that first studies trying to map corruption and BE situation in the country appeared. Among the most important authors, we can mention Bohata (1997), Putnova (1999, 2000, 2001, 2007), and

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<sup>5</sup> In 1993 former Czechoslovakia peacefully split up into two sovereign countries – the Czech Republic and the Slovak Republic.

Nemcova (2001), who unlike other others separated BE from CSR issues. The effort of scholars was also accompanied by the attempts of international organizations such as Transparency International (TI) to map local situation concerning CSR and BE (e.g. Průzkum aplikace etických kodexů, TI, 2006). As BE was reintroduced as a subject to schools, more theoretically oriented literature as well as specialized studies appeared (Friedel, 2003, Cooper and Dofrman, 2003).

Approximately at the beginning of the new millennium, the country moved to the current, **know-how** stage. By now, most Czech organization have accepted the need to institutionalize BE and incorporate BE and CSR activities in their strategy, however, as Travnickova (2005) suggests, there is still serious lack of knowledge of specific tools and procedures. According to Čaník and Čaníková (2006), Czech managers believe that there is still not enough information or literature dedicated to the topic of BE and that BE issues are seriously neglected by media and the press. Managers would especially welcome more specific information concerning the implementation of various BE instruments, more positive examples, or databases containing the experience and best practices of other companies. BE and CRS studies conducted in the CR (Trnkova, 2004) also suggest that companies with foreign participation or local branches of multi-national companies display higher awareness and more sophisticated approach in relation to BE,<sup>6</sup> a trend, which has also been observed among large companies. Previous studies also show very low awareness of BE or CSR on the side of Czech SMEs, which lag behind large companies. It is obvious that the phases of know-why and know-how overlap; while majority of large companies are in the stage of developing specific BE instruments or their more or less successful implementation (know-how), most SMEs are still in the phase of know-why. However, it is important to highlight that despite reported lower awareness and knowledge of BE or CSR concepts among small companies (Trnkova, 2004; Čaník and Čaníková, 2006, Travnickova, 2005), many of them actually successfully practice BE or CSR principles intuitively.

At this place, we would like to shortly mention some BE perceptions common in Czech business sector. It is alarming that a large number of managers does not see ethical behavior as beneficial for the company by (e.g. Travnickova, 2005) and that a certain level of unethical conduct is considered to be the standard. Furthermore, especially in the short-run, unethical conduct is often seen as a competitive advantage. Another largely held opinion is that companies can start paying more attention to BE issues only after they have reached economic stability, or that more sophisticated approach to BE and CSR topics is only needed in large companies (Čaník and Čaníková, 2006).<sup>7</sup> Travnickova (2005) also reports the existence of a large discrepancy between private and public sector, the latter being regarded as more unethical. Despite that, CSR or BE studies cited here also suggest a positive trend in the sense that BE is growing in importance, BE practices in sophistication and overall business environment is perceived to be becoming more ethical. Another important feature of Czech business environment is the application of so-called double standards (Travnickova, 2005; Čaník and Čaníková, 2006). Czech managers tend to distinguish two types of unethical

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<sup>6</sup> However, Czech economic agents realize it does not necessarily mean a higher **level** of BE on the side of foreign companies. In fact, a certain amount of Czech managers are of the opinion that while foreign companies have devised more sophisticated ways to enhance BE or CSR, they have at the same time become very apt at finding ways how to avoid them. BE or CRS instruments thus in many case become mere PR tools, rather than efficient ways of increasing overall level of BE and CRS (Travnickova, 2005).

<sup>7</sup> A significant portion of SME managers believes ethical practices can be developed through personal communication and shared company culture, without the existence of written rules or an ethical code, which are considered to be unnecessary.

behavior – unethical practices which directly harm their own organization and should be severely punished (“bad ones”), and unethical practices benefiting their own organization (“good ones”). The latter are regarded as overall less harmful, not necessarily requiring punishment. Furthermore, if unethical behavior in an organization is discovered, it is usually seen as a problem of character or individuals, rather than a problem of the whole organization. In many cases, Czech managers thus refuse their organization’s responsibility for unethical conduct on the side of their employees (Čaník and Čaníková, 2006). Finally, we would like to mention generally high level of skepticism of government intervention or other institutions existing to promote BE. Implied by the experience from the previous regime, Czech managers disregard these activities as inherently ineffective (Travníková, 2005). This attitude is also related to the commonly held opinion that if exemplary ethical behavior or CSR activities of companies are publicly announced or discussed, it means they are simply used as PR instruments having only one objective - increasing the profits of the company, which makes BE promotion or enhancement more difficult.

When trying to understand ethical and business environment of European countries, it is impossible to neglect the topic of European integration and the European Union. All economic processes in Europe have been influenced by the existence of the EU and comprise much stronger international dimension. As Enderle (1996) suggests, when compared to the USA, BE and BE studies in Europe have its own specifics. Unlike in North America, in Europe BE is perceived from micro as well as macro perspective, is more international, and the arguments for BE enhancement rely more on economic justification. However, it is also more theoretically oriented and more strongly related to social science as opposed to normative paradigm dominant in North-American concept of BE. BE as subject at the university is also much less generally accepted than in the USA, especially in new EU member-states. Being located in the centre of Europe, the Czech Republic is not an exception to these trends.

Although the above characteristics hold, the CR also obviously differs from Western Europe in relation to CSR and BE in several important aspects. First, while BE has been taught and discussed in Western Europe with increasing intensity over the last three decades, in the Czech Republic, as previously mentioned, it only started receiving more attention in the second half of the 1990s. Czech BE is consequently formally much less developed and Czech companies lag behind especially as far as the institutionalization of BE is concerned. Second, although the beginning of the new millennium has been characterized by more open discussion about and more active interest in BE, there is still a relatively large group of business agents who are not sure of the content of the terms or the benefits of BE and CSR (Travníková, 2005; Trnkova, 2004). Despite a number of institutions having as a goal BE or CSR promotion and the fact that in relation to the entry in the EU and OECD recommendations, ethical codes and social auditing have become a popular way to attempt to enhance companies’ ethical conduct (Travníková, 2005), many economic agents still lack detailed or even basic knowledge of BE and CSR tools and remain confused as to how to implement ethical practices in everyday company operations.

### **III Methodology, Data and Sample Description**

Similarly to previous BE studies, our study uses a questionnaire survey as the method to gauge managers’ perceptions of BE. We use a modified version of questionnaire employed by Choi, Nakano (2008), which was based on a questionnaire form originally developed for BE



study in the USA. For the purpose of the study in the Czech Republic, we change the monetary unit for CZK (Czech Crown). Implied by the Czech Republic membership in the EU, we also express financial amounts on the form in euro (EUR). We modify the amounts used in previous survey to reflect the salary level in the Czech Republic.

To increase the reliability of the results and weaken respondents' reluctance to provide answers, the survey was fully anonymous. We collected the data by first contacting selected companies on the phone. After obtaining their positive answer as to their willingness to complete our questionnaire, the questionnaire form was sent to the respondents by e-mail, requiring an answer within one week from the day the form was sent. In majority of cases, when the respondents agreed during the telephone conversation to participate at the survey, they timely returned a properly filled-in form. However, in some cases, the respondents expressed their concern as to revealing information against the company policy or their distrust regarding the promised anonymity, and later refused to return the questionnaire. The reluctance to answer was stronger with the increasing company size.

The descriptive statistics of the sample are provided in Table 1. The respondents cover various industries, levels of management, as well as company sizes. We report companies in group based on the size classification used in the EU, according to which companies with over 250 employees are considered large-size enterprises; companies that employ between 50 – 250 people are classified as medium size enterprises, and enterprises with less than 50 employees as small size businesses<sup>8</sup>. As apparent from Table 1 our sample consists from a relatively high number of SMEs (small and medium enterprises constitute about 63% of the sample), which reflects the situation in the Czech Republic quite well.<sup>9</sup> Where we contend the company size may bear significant influence on the interpretation of the results, we provide a separate analysis for SMEs and large companies. As for the size of companies using so-called Schwarz system<sup>10</sup>, we consider their “independent” collaborators as their employees and classify the companies accordingly (e.g. a company employing 30 core employees and collaborating with another 500 hundred based on Schwarz system is classified and a company with 530 employees). As the sample does not contain a large number of firms from manufacturing industry, the conclusions from this survey should be interpreted with caution and extended to manufacturing companies only with great care.

In terms of the education level, the sample demonstrates generally well acknowledged high level of education in the Czech Republic; 75% of the respondents are graduate school degree holders, with another 12% holding a bachelor's degree. Despite that, only 32% of respondents have attended any courses in ethics or moral philosophy at college. Obviously, low level of experience with higher education concerning ethics or philosophy is strongly related to Czech communist history. As 48% of survey respondents fall in the age group of 40 or more, they have taken most of their education during the totalitarian regime, when any education that might have possibly threatened the position of the regime, including ethical or

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<sup>8</sup> Viz <http://ec.europa.eu/enterprise/policies/sme/> - Recommendation 2003/361/EC regarding the SME definition.

<sup>9</sup> Based on the portion of Czech GDP originated in SMEs and large companies, large companies (37% of our sample companies) are slightly underrepresented (about 40% of Czech GDP is originated in large companies). However, we believe this fact does not significantly affect the validity of our results.

<sup>10</sup> The Schwarz system is a system of “concealed employment relation whereby the employer hires a trader to carry out work that could be done in a work relationship by an ordinary employee”. Limited autonomy indicates that the nature of the work of entrepreneurs without employees comes close to the nature of the work of an employee. In the CR Schwarz system is illegal (Vaskova, 2005).

moral philosophy courses (apart from the obligatory study of Marxism-Leninism) was seriously suppressed.

With respect to the age of respondents, we expect differences in responses between those who grew up and spent majority of their lifetimes under communist regime and those who did not (roughly below and over 40 years old), due to their different experience. It has been observed that a significant portion of people who have gained most of their experience in previous regime tends to view newly established market system as worse, often saying that previous system was better as everything was simpler and easier. As their view of the difference between command and market economy may bias their answers towards more positive opinion of the previous regime, we expect to see a higher number of positive opinions of current BE level on the side of lower age groups.

In relation to the sample description, it is also interesting to mention a high proportion of respondents without religion. It has been previously noted as a sociological phenomenon that the Czech Republic is the most secular country in Europe, even when compared to other culturally close Central European<sup>11</sup> or ex-communist countries. This fact bears importance on the survey, as the values of non-religious respondents are unlikely to be strongly influenced by any belief or religion.<sup>12</sup>

## IV Results

This section reports major findings of the study. Based on the investigated area, we divide them into six groups: unethical industry practices, management of ethical values in respondents' organizations, responsibility to various social groups and respondents' experience of ethical conflicts, factors influencing (un)ethical decision making, comparison of ethical standards today to the situation ten years ago, and the results related to hypothetical situations. More detailed information follows.

### IV.1 Unethical Practices in Respondent's Industry

We first focus on respondents' opinion of general BE practices in their industry. As Table 2 suggests, while 78% of respondents report the existence of unethical practices in their industries, only 15% think there are none. On checking for company size, we found out that SMEs report the existence of unethical practices more often (84% of SMEs respondents answer "Yes, a few" or "Yes, many") than large companies (68%). The explanation behind this fact may be that implied by their size, SMEs are more open to the external environment, making all of their employees more likely to be exposed to the situation where they can observe the existence of unethical practices in 'their industry'. More detailed analysis also reveals that the tendency to report the existence of unethical practices is not related to the management position, as the results are very consistent for all managerial groups.

Table 3 reports the unethical practices respondents would most wish to see eliminated. As number one, the respondents chose "*Giving of gifts, gratuities, and bribes*", followed by "*Price discrimination and unfair pricing*", "*Dishonesty in making or keeping a contract*", and

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<sup>11</sup> Without any doubt, the country culturally closest to CR is the Slovak Republic. Nevertheless, even in Slovakia the proportion of religious population (84% of population in 2001) is much higher than in the CR (31% in 2001). Both numbers are taken from the official website of the Czech Statistical Office (<http://www.czso.cz/>).

<sup>12</sup> This fact is relevant in relation to the answers provided in Tables 14 and 15 (survey participants' responses regarding the factors influencing their (un)ethical decisions).

“*Miscellaneous unfair competitive practices*”, with not very significant differences between the number of respondents opting for the latter three. On average, the respondents who answered this question chose 3.1 practices they would like to eliminate most. We think this is quite a high number, but well in line with the findings or previous research of BE in the Czech Republic repeatedly mentioning strong dissatisfaction of Czech managers with current business environment (e.g. Putnova, 2000; Trnkova, 2004). It is also important to point out that the answers may also be influenced by respondents’ understanding of the content of BE and prevailing effects of 2008 world economic crisis. As obvious from the table, the list is topped by unethical practices directly related to business relationships with business partners and business contracts while those related to respondents’ organizations’ internal issues (e.g. unfairness to employees or dishonest advertising) are in the second half of the list when sorted by the percentage of respondents choosing the respective answer. This finding complies with the notion reported in prior studies that Czech managers mostly see BE issues as those arising from direct contact and everyday dealings with their business partners, neglecting other dimensions of BE. According to non-tabulated results, SMEs report the existence of unethical practices more often; on average, they report 3.3 unethical practices in contrast to 2.9 different unethical practices reported by large companies (non-tabulated). It is also obvious that SMEs differ from large companies in situations, where large companies can exercise their stronger power implied by their economic size. For example, “*Miscellaneous unfair competitive practices*” are thus viewed as a more serious problem by the respondents from SMEs (47%), while the figure is only 33% for large companies. Similarly, “*Price discrimination and unfair pricing*” is also more often reported by SMEs (50% vs. 40% for large companies).

#### ***IV.2 Management of Ethical Values in Respondents’ Organizations***

In the next question respondents were asked about the effort their organization is making to enhance ethical values. Table 4 shows that over 25%, i.e. one fourth of respondents, said their company is not making any effort at all in this area, and another 14% answered “*Yes, but very little*”, these two options constituting 39% of all responses to this question. 48% of respondents said their organization is making effort “*to some extent*” and only 14% think their organization is making effort in favor of ethical values “*eagerly*”.

We were further interested to see whether the responses differ with company size or managerial position. As we expected, big companies show more active approach. According to the results, 77% of respondents from large companies answered “*Yes, eagerly*” or “*Yes, to some extent*”, while in SMEs the combined percentage is only 51%. The main difference can be observed in the answer “*yes, but very little*”; the percentage for large companies and SMEs is 19% and 5% respectively. Again, we can confirm the findings of previous studies. The explanation behind this results is the generally held opinion (Travnickova, 2005; Čaník and Čaníková, 2006) that SMEs have “other things to worry about” than BE or CSR issues. Furthermore, large companies are often connected to foreign (Western) companies or investors who bring more sophisticated attitudes to BE from their own country. However, it is also important to point out that in many cases, small companies practice BE attitudes intuitively without institutionalizing them, and the effort on the part of such companies may thus not be recognized as the effort towards BE enhancement by them (Čaník and Čaníková, 2006). We also tried to see whether the way the respondents assess the amount of the organization BE effort is related to the managerial position. When the answers “*Yes, eagerly*” and “*Yes, to some extent*” were added up, we did not find significant differences for the groups of middle management (upper or lower) and non-management personnel (67%, 63%

and 67% respectively). However, we think it is very interesting to see that the responses of the group of top managers differ. Contrastingly to the rest of the sample, top managers tend to view their organizations effort insufficient. Only 46% of them have answered “*Yes, eagerly*” or “*Yes, to some extent*”, with the main difference being apparent in the option “*Yes, to some extent*” (top-managers 23%, upper and lower managements groups and other 61%, 53%, and 44% respectively) and “*Yes, but very little*”, which is represented by 31% in the top-management group (upper and lower managements groups and other 6%, 11%, and 11% respectively). We think this different perception of top-managers may be due to the fact that they are likely to be much better informed of BE or CSR instruments and are able to see companies activities in a larger context. Being aware of all possible ways to enhance BE top managers may qualify the organization’s effort as insufficient although from the lower managerial level respondents’ viewpoint the effort may seem sufficient. The answer may also reflect the fact that top managers are the main decision makers, who, fully aware of BE and CSR importance, may feel frustrated by insufficient resources they have at the disposal for their enhancement<sup>13</sup>. This notion is supported by the results of previous studies documenting that a number of managers show active interest in BE and CSR, but state they lack the capacity for the development of their organization in these areas at present (Čaník and Čaníková, 2006).

As far as the instruments used to enhance BE are concerned (Table 5 Panel A), in overwhelming majority of cases companies rely on *corporate philosophy including ethics* (86% of respondents who answered the question), followed by the use of the *code of ethics* as distant second (46%), *contribution to social/cultural activity* (43%), *punishment for unethical conduct* (34%), and *employee training in ethics* (27%). On average, companies use 3 different ethics enhancement instruments. In answers to this question, a difference can be observed again between SMEs and large companies. While the average number of ethical instruments reported in use by large companies is 3.9, for small companies it is less than two-thirds (2.4). Furthermore, among the ethical tools used by SMEs in our sample, the use of four categories of instruments was reported less than 5% of cases (*suggestion system on ethics* 0%, *ombudsman* 4%, *ethics committee* 0%, *anonymous reporting hotline for unethical conduct* 4%). For big companies, we received no positive answer for the existence of *ethics committee*, and only 6% for *social auditing*. So few respondents reporting the usage of social auditing are especially interesting, since according to Čaník and Čaníková (2006), social auditing along with the use of code of ethics are supposed to be among the BE tools receiving most attention.

On sorting the answers according to the management position for SMEs and large companies separately, we obtained interesting results (Table 5 Panel B). While in case of large companies the average number of ethical enhancement tools reported by the respondents decreases with the managerial level with the exception of the group of “other”, for SMEs the same number increases with management level (with the exception of “other”). This discrepancy points at the fact that lower level employees may be less accurately informed of BE tools in use by their company or the possibility of insufficient BE trainings. However, a large sample size is needed to shed more light on this issue.

When asked about the extent to which the effort respondents’ organization makes to promote ethical values has been successful, 76% of respondents said it has been rather successful

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<sup>13</sup> As the proportion of respondents at the top-management level is lower for large companies than for SMEs (See Table 1 B), we also conducted the analysis of responses according to the management level for SMEs and large companies separately. The above findings have been confirmed. Not tabulated.

(“*very satisfactory*” and “*satisfactory*”), and 22% think they are unable to assess the results of the effort (Table 6). Implied by previous question concerning the amount of effort the organization is making in BE field, we tried to see whether the level of satisfaction changes with management position. Once again, the position of top management differs from the rest of the sample. From top management positions down to non-management personnel, the results show gradual decrease in “*very satisfactory*” answer, from 40% (top management) to 13% (“*other*”). However, while top management group reports “*satisfactory*” only in 30% of cases, for upper-middle management this answer represents 64%, lower middle-management 46% and “*other*” 50 percent of answers. Overall, upper middle management group reported highest satisfaction (93% when “*very satisfactory*” and “*satisfactory*” are added up). We contend these findings show that although especially top managers would wish to dedicate more resources to BE or CSR issues, overall, they are satisfied with the results of their current, to certain extent limited, effort. It is interesting that while no respondents from top-management group assessed the results of the company’s effort as “*unsatisfactory*” or “*very unsatisfactory*”, 30% stated they cannot tell whether the company’s effort has been successful or not. We are not surprised by an increasing number of respondents choosing “*cannot tell*” with lower management position in case of other managerial groups (upper-middle, lower-middle and other 0%, 31%, and 38% respectively), however, we would expect top-managers to be in the best position among the company staff to be able to assess the results of their company’s activities; we thus contend that their answers may be biased by social desirability.

#### ***IV.3 Responsibility to Various Social Groups and Respondents’ Experience of Ethical Conflicts***

Table 7 shows which social groups the respondents think company is most responsible to. Our findings demonstrate that managers feel most responsibility to *customers*, followed by *employees* as distant second, then *stockholders*, *suppliers* and *society in general*. It is interesting to see that the difference between the mean ranks of the first two answers is quite big, so the order is quite well set, for the second and third answer it is relatively small (2.8 vs. 3.0). Moreover, as for the last three groups – *government*, *local community*, and *dealer* - the mean rank begins at 6.1, while “*society in general*” is ranked as 4.2. It is not very surprising to see that the respondents do not feel strongly responsible to government, a fact, which only confirms a high level of skepticism concerning institutions or public sector reported in Czech (Travnickova, 2005). We contend that the lower level of responsibility to local community may be implied by communist history, where this idea was broadly proclaimed but rarely practiced and thus became profaned. Low responsibility to “*dealer*” may be implied by the sample composition, which does not cover significant amount of respondents who regularly come in contact with dealers. More detailed analysis showed that SMEs feel to their customers and employees more responsibility than large companies (mean ranks for customers 1.4 and 2.1 respectively, for employees 2.6 and 3.1). In case of large companies, employees were ranked third and stockholders second (2.6). We contend that again, these answers reflect the unique situation of economic subjects of different sizes. While the economic performance of large companies is under tight supervision of their stockholders and investors, SMEs, among which many do not even have any stockholders, are much more concerned about their customers as the key factor for their economic survival.

Respondents were further asked whether they have experienced ethical conflicts in their career, in answer to which 51% chose “*yes*” (Table 8 Panel A). Further analysis showed that while 43% of respondents from large companies have experienced ethical conflict, in SMEs it was over 55%. Surprisingly, the experience of ethical conflict was more often reported by

lower managerial level respondents; the top management stated they have experienced ethical conflict in 39% of cases, upper middle management, lower middle management and “other” in 53%, 50%, and 67% respectively. When we further analyzed the responses according to the management level for SMEs and large companies separately (Table 8 Panel B), we could observe the same trend for SMEs and less regular but still obvious trend for large companies confirming these findings. We explain the fact by the influence of social desirability; it is possible that with the increasing managerial responsibility, managers are less often willing to admit they have faced situation involving ethical conflict as they are worried they might be perceived as unethical.

The types of ethical conflicts mentioned most often are those related to “*honestly in internal communication*” (50%), followed by “*gifts, entertainment, and kickbacks*” (37%), and “*firings and layoffs*” (37%) along with “*honestly in executing contracts and agreements*” with 30% (Table 9). These are very closely followed by “*fairness and discrimination*” and “*honesty in external communication*”, which were both marked by 27% of respondents who answered this question. It is interesting to see that the type of ethical conflict clearly mentioned most often is honesty in internal communication; we think it may suggest that the perceptions of BE in the CR are changing and beginning to involve internal issues more often than in the past. On average, respondents have experienced 2.3 different types of ethical conflicts in their career. These conflicts usually involve suppliers (48%), employees (42%), customers (32%), colleagues (29%), and competitors (26%), viz Table 10. Once again, we can observe rising importance of internal ethical issues. The fact that respondents report little experience of ethical conflicts in relation to superiors is interesting; more research is needed to explain this finding.

Table 11 reports the answers to the question whose side the respondents would choose facing a conflict between the interests of their organization and their personal ethics. In their answers, 13% of survey participants chose company interests, 23% personal ethics, and 65% stated it depends on the situation. Czech managers thus appear strongly situational, which is not surprising considering Czech modern history and the unstructured way Czech BE has been forming in the last two decades. It is also interesting that among the top-level managers, no-one opted for the answers “*depends on situation*”, while in the upper-middle and lower-middle management groups this answer was chosen in 64% and 70% of cases respectively, and in the non-managerial personnel group even in 100%. Again, it seems that a top-management personnel wants to avoid being seen as unethical. However, due to a small amount of respondents this finding must be considered with caution.

We further inquired whether the respondents reported the unethical practices they have experienced and if not, what the reason for them not to do so was. According to Table 12, in full 74% of cases the unethical practices went unreported. While 24% of managers gave as a reason that “*even if reported, it would be difficult to correct the unethical practice*”, 21% stated “*it was difficult to decide whether the practices were ethical or not*” (Table 13). As for the large amount of answers in the category of “*other*” (41%), majority of them fell in two categories. The first can be summarized as saying they have never experienced an ethical conflict, so there was no reason to report it. The second one is related to managerial positions – top-management respondents said they had no superior to report to or had sufficient authority to solve the situation without superior’s intervention.

#### ***IV.4 Factors Influencing Ethical and Unethical Decision Making***

The survey also examined the factors bearing influence on (un)ethical decision making. Table 14 shows the factors playing largest role in making **ethical** decisions. “*One’s personal code of behavior*” was reported as the strongest factor (mean rank 1.9), followed by “*company policy*” (2.3), “*the behavior of one’s superiors*” (2.7), and “*the behavior of one’s equals in the company*” (3.7). “*Ethical climate of the industry*” was considered as the least influential factor. These findings are in contradiction to previous studies repeatedly suggesting important role (or even key role) of leadership by example in Czech organizations (e.g. Travnickova, 2005). To understand this discrepancy better, we tried to see whether the company size or managerial position had any influence on the distribution of the answers. When arranging the responses according to the management position, we obtained mixed results. Nevertheless, we were able to observe consistent increase in importance of ethical climate of the industry with higher position in the company hierarchy. We content the reason is that the more responsibility the managers have, the more external factors they need to consider in making their decisions, including overall ethical climate of the industry.

As for the question raised earlier (weak influence of the behavior of superiors or colleagues), we could not find any significant systematic differences, apart from noting that the importance of superiors for respondents in making ethical choices rose with decreasing management level (untabulated)<sup>14</sup>. It is obvious that with lower position, an employee has less power and authority and thus tends to turn to superiors as opinion leaders more often.

In addition, we would like to mention two interesting findings. The first one is that ethical climate of the industry plays more important role in ethical decision-making of SMEs (median rank 4.0) than in big companies (4.5)<sup>15</sup>. As reported and consistent with the discussion related to Table 12 above, the reason may be that small companies are by nature more open and more exposed to the outside environment and thus need to consider its current state more carefully. The second one is that in big companies, respondents reported stronger reliance on one’s personal code of behavior (1.6) than in SMEs (2.1). When we tried to eliminate the influence of the fact that various management levels are not evenly distributed between SMEs and large companies, this finding was clearly confirmed. We leave it to future research to provide more insight into this finding.

Table 15 presents the results of similarly composed question focusing on the factors that influence **unethical** decisions. Personal financial needs are cited as the most significant factor in making unethical decisions (2.4), along with company policy or lack thereof (2.7), and the behavior of one’s superiors (2.7). Financial needs reported as the main reason for unethical conduct are well in line with previous literature documenting the tendency of Czech to see unethical conduct more as a problem of individuals, rather than companies (e.g Putnova, 2000; Čaník and Čaníková, 2006). The lack of company policy as an important unethical conduct factor may be related to the legislature and general systematic policy vacuum (in public as well as private sector) that existed in Czech economy during the transformation process and the fact that BE and CSR concepts are still new for Czech businessmen. Although social demand for more clear guidelines existed, they were not provided or systematically executed, so this answer may also show lingering frustration of the inexistence of clear ethical rules to follow. Similarly to the previous question, the behavior of colleagues or superiors does not belong among the most influential factors, although its importance

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<sup>14</sup> The answer to the question raised here is further discussed in relation to the results reported in Table 19 of this paper.

<sup>15</sup> Untabulated.

increases with decreasing management level. While we were not able to find any systematic differences according to either management position or company size, we can again observe that SMEs are more likely to be influenced by ethical climate of the industry than big companies.

On mutual comparison of the answers to the questions regarding factor influencing **ethical** and **unethical** decisions, we found that the responses concerning unethical decision were much more diverse, resulting in smaller differences between median ranks. This indicates that there is not a generally shared strong idea of the main factors leading to unethical conduct; respondents thus can blame ‘everything and nothing’. Mutually less consistent answers related to unethical behavior may also be explained by the tendency of Czech people to complain about the current state of business environment and distrust in institutions, pointing towards generalization and the attitude ‘outside, everything is bad’.

#### ***IV.5 Ethical Standards Today vs. Ten Years Ago***

Finally, we also investigated the opinion of ethical standards now as compared to the situation ten years ago. The results provided in Table 16 show that while almost 28% of respondents think ethical standards are higher now, as many as 40% are of the opinion that ethical standards have decreased. This is a finding which contrasts with the previous Czech BE literature indicating careful optimism and positive BE trend as perceived by Czech managers (Čaník and Čaníková, 2006). However, majority of research reported in existing literature was conducted prior to the last world economic crisis, the impact of which is still clearly visible in the Czech Republic as well as worldwide<sup>16</sup>. We thus contend that general attitudes can be influenced by sharpened competition due to the crisis and the fact that existential difficulties caused many companies to be less scrupulous than before.

As mentioned earlier in the paper, Czech managers’ ethical attitudes are likely to be influenced by their previous experience, especially in relation to what portion of their lifetime they have lived in the previous (i.e. communist) regime. Consequently, we expected to see a large proportion of negative responses in the higher age group. More detailed analysis based on different age groups confirms this notion. While the respondents falling in the age group of 39 years old and younger think ethical standards are higher now in 39% of cases, in the age group of 40 and older it is as few as 15% percent. We also asked whether the answers to this question differ with the company size. We found that the respondents from large companies show higher level of optimism than those from SMEs, however, on analyzing the age structure of each group, we found out that while for large companies the average age is 38.1 years, for SMEs it is 43.1 years (non-tabulated). We thus consider the age as much more influential factor than the company size<sup>17</sup>.

Among the most often cited reasons for **better** ethical climate “*public disclosure, publicity and media coverage*” (76%), “*increased public awareness and scrutiny*” (71%), “*increase in manager professionalism and education*” (67%) and “*new social expectations for business’s role in society*” (52%) were cited (Table 17). It is only a good news to the existing numerous BE institutions as well as to universities that all these reasons belong among those that are

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<sup>16</sup> In fact, some countries are still expecting to suffer severe impacts in selected sectors, such as building industry, where the negative impacts of economic crises usually materialize with a lag.

<sup>17</sup> We also tried to analyze the answers according to the management level. Similarly to above, as could be expected we found that the average age is higher with higher management position, so we consider the age as more influential factor than management position.



closely related to educational effort aimed to increase public awareness of BE and CSR issues. We did not find any systematic differences in responses for SMEs and large companies, or different management-level groups.

Regarding the reasons for **lower** ethical standards (Table 18), by far the most often reported ones were “*greed and the desire for gain*” (91%), and “*political corruption and loss of confidence in government*” (85%). These answers comply with the findings of previous studies that Czech managers have the tendency to perceive unethical conduct as problem of character and individuals, and confirm the generally held and often documented skepticism of institutions and government very typical for Czech business environment (e.g. Travnickova, 2005). Despite our hypothesis about the possible bias of answers by current phase of economic cycle (post-crisis period), pressure for survival in a slow economy was reported as a factor of present lower ethical standards only in 27% of cases, the least often answer.

#### ***IV.6 Hypothetical Situations***

Finally, the respondents were presented with four types of hypothetical situations. We asked the survey participants what they would do in a given situational context and what they think the course of behavior of an average businessman/executive would be. The responses are summarized in Table 19.

##### ***Situation 1***

In Situation 1 we asked about respondents’ attitude to unethical behavior related to an internal situation harming the company. Specifically, we asked the respondents their opinion about an executive padding his expense account. In answer to the question, 68% of respondents think such a kind of behavior is “*unacceptable regardless of circumstances*”, and another almost 27% chose “*acceptable, if the executive’s superior knows about it and says nothing*”. These answers indicate the respondents are willing to follow the attitude displayed by the superior’s behavior. This corresponds to our findings concerning the factors influencing (un)ethical behavior, where superiors were not considered the major factor, and at the same time were reported to be more influential factor than the behavior of one’s colleagues (in Situation 1, option “*acceptable, if other executives in the company do the same thing*” received only 5% of responses).

Contrastingly, when we asked what an average manager would do, the answers were much more evenly distributed. The most often marked option was “*acceptable, if the executive’s superior knows about it and says nothing*” (40%), followed by “*acceptable, if other executives in the company do the same thing*” (32%) and then “*unacceptable, regardless of circumstances*” (28%). This distribution makes it obvious that Czech managers tend to regard themselves more ethical than the average. The findings related to Situation 1 also finally shed some light on the discrepancy identified in question related to Table 14. Corroborating the findings from Table 14, the answers to Situation 1 suggest that the notion that “leadership by example” works and that it is a very significant factor influencing the conduct of Czech managers, is the respondents’ opinion of the common situation in the industry (average manager). However, when managers are asked to provide answers concerning their own behavior and motivation, managers’ responses reveal that this factor is significantly weakened and that their own behavior is more strongly influenced by personal code of ethics or company policy (Table 19). Although it is still possible that the answers are influenced by social desirability, we think this is a very important finding helping us understand how the view expressed through responses to similar questions may be biased, thus allowing for more

accurate interpretation.

### *Situation 2*

Situation 2 concerns managers' willingness to hire an employee to obtain technological secret which would improve the position of their organization vis-a-vis major competitors in the same industry. As Table 19 shows, while 80% of respondents would probably hire the employee, 20% probably would not. As for the opinions of an average manager, the ratio is as high as 97% of opinions stating that average manager would do so and mere 3% stating he probably would not hire the employee. These findings confirm that the survey participants view themselves more ethical than the average, or, alternatively, they view the average less ethical than themselves. They may also partially reflect the "double standards" repeatedly reported by prior studies (Travnickova, 2005; Čaník and Čaníková, 2006) referring to the fact that Czech managers tend to make distinction between unethical behavior that brings benefits to their organization ("good unethical conduct"; often belittled in importance and not requiring strong punishment) and unethical behavior that directly harms it ("bad unethical behavior"; should be punished and persecuted).

### *Situation 3*

Asking survey participants what they would do if the minister of a foreign nation offered them help in obtaining a contract in exchange for a 'special consulting fee', Situation 3 is designed to reveal respondents' ethical perceptions regarding potential conflict between moral climate of a different country and their personal notion of BE. When answering for themselves, 38% of respondents chose "*refuse to pay, even if sale is lost*", and 54% said they would "*pay the fee, feeling it was unethical but necessary to help insure the sale*". The remaining 9% would "*pay the fee, feeling it was ethical in the moral climate of the foreign nation*".

These answers reveal that this kind of situation would expose 54% of respondents to an ethical dilemma, which they would finally solve by suppressing their personal ethics in favor of the interests of their organization. This is contradictory to the answers in Tables 14 and Table 15 where ethical climate of the industry was regarded among the least influential factors in respondents making (un)ethical decisions. On the other hand, this finding is consistent with Table 11 where 64% survey participants admitted that in if faced with ethical conflict between their personal ethics and the interests of organization, their decision would depend on the situation. We also think that the questions directly asking about factors influencing (un)ethical behavior are biased by social desirability and point out that theory and practice are not always the same thing. We consider these findings very important, because the sources of BE and SCR information, as well as the trainings, in the CR are often criticized for being too theoretical and not providing enough practical examples or information about specific practices and their implementation. The comparison of findings reported in Tables 14 and 15 and Situation 3 (Table 19) indeed reveals there is still a big gap between theory and practice and emphasizes the need for more practice-oriented approaches in enhancing BE and CSR. The awareness of this discrepancy also provides the lens to interpret the results of this and other studies more accurately.

When expressing their opinion of an average executive, striking 5% of respondents stated that he would "*refuse to pay, even if sale is lost*". Another 61% think that he would "*pay the fee, feeling it was unethical but necessary to help insure the sale*" and the remaining 33% said he would "*pay the fee, feeling it was ethical in the moral climate of the foreign nation*". It is

interesting to see that not only the survey participant view themselves as more ethical than the average managers, but they also think their notion of what is ethical is different from the notion of what represents ethical behavior as perceived by average managers. In other words, the perceptions of what constitutes ethical conduct is stricter on the side of the survey respondents (9% chose “*paying the fee, feeling it was ethical in the moral climate of the foreign nation*”) when compared to their opinion of average businessmen (33%).

We were also interested whether the answers of the respondents with trade/sales background differed from the rest. The untabulated results suggest even more skepticism and broader boundaries regarding their own conduct. 86% of them stated that they would “*pay the fee, feeling it was unethical*”, at the same time indicating their more often exposure to ethical conflicts. For the average sales person, they chose this answer in 100% of cases. Needless to say that by the nature of their job description, these employees are likely to be exposed to the unethical behavior of others most, so their answers may reflect their strong negative experience. However, the sample size of this category (8 respondents) does not allow us to make any conclusive inferences.

#### *Situation 4*

Finally, we investigated the reactions of respondents to unethical behavior providing an advantage to their organization. More specifically, we wanted to know what the survey participants would do in the position of a sales manager if they found out that their salespeople are giving money to purchasing agents to obtain more sales. While 15% of respondents reported they would “*issue an order stopping future payments and reduce salespeople’s pay in the amount equal to their commissions on the sales gained as a result of future payments*”, 59% would “*issue an order stopping future payments, but do not reduce sales people’s pay*”, and 25% would “*say and do nothing*”. These responses suggest that unethical behavior favoring the respondents’ organization would be largely tolerated, in the sense that even if managers tried to stop it, they would not punish its originators (59%), or no attempt to correct this unethical practice would be made (25%). Again, we can see the manifestation of “double standards” as mentioned above.

The answers revealing the respondents view of general situation in the market were again much more skeptical. Full 70% of respondents think average sales manager would “*say and do nothing*”, 23% that he would “*issue an order stopping future payments, but do not reduce sales people’s pay*”, and only 7% are of the opinion he would “*issue an order stopping future payments and reduce salespeople’s pay in the amount equal to their commissions on the sales gained as a result of future payments*”.

Similarly to Situation 3, we tried to analyze the views of sales/trade people separately. Again, the answers confirmed the findings of Situation 3. For themselves, in 50% of cases sales/trade respondents said they would “*say and do nothing*”, and in 25% of cases they marked they would “*issue an order stopping future payments, but do not reduce sales people’s pay*”. Their view of the average sales manager does not significantly differ from that one of the whole sample. Nevertheless, we would like to emphasize again the limitations of making inferences based on the small sample of respondents falling in the sales/trade category.

Overall, the situational questions reveal a difference between theoretically stated ethical principles and preferences, and behavior in the real situation. This points towards the need for more practically oriented trainings, rather than theoretical explanations or materials, which

may be understood as moralizing. Furthermore, the answers to hypothetical situation demonstrate different perceptions of one's own ethical standards and those of average managers, who are viewed as much less ethical.

However, this finding can be understood in two different ways. One possibility is that average Czech managers are indeed unethical beings and the survey respondents provide answers that make them appear more ethical than they are, the reality being close to what is perceived as average. However, we do not think so. If we assume that the real situation is closer to the way the survey participants view themselves, Czech business environment is likely to be more ethical than they think or than is generally reported. In our opinion, while the truth most probably lies somewhere between these two, we think the overall business environment is somewhat more ethical than generally held opinion, for which we offer the following reasons. The first one is the well known skepticism of Czech people of their own country, and the culturally embedded tendency to criticize and complain about domestic environment as well as affairs, partially prevailing from the communist period. Furthermore, negative publicity of the media and the emphasis put on bad examples of *unethical* conduct and low coverage of numerous cases of *ethical* behavior creates the atmosphere of unethical business community which is supposedly not interested in any enhancement of ethical standards. Finally, general perceptions of BE are biased by the tendency to interpret ethical or socially responsible behavior as mere PR activities motivated by economic gain. Although this phenomenon is reported for many (European) countries, in Czech business environment dominated by the distrust in institutions and government it is even stronger. The negative bias against the "good" motivation of BE practices is further amplified by the fact that in most cases, when good or ethical behavior is made known, in Czech perceptions, this very publicity significantly decreases its value and degrades it to a well calculated publicity stunt.

## V Conclusion

This study investigated the views of BE in the Czech Republic held by managers and non-managerial personnel of Czech private and public organizations. To elicit the answers, a survey questionnaire was distributed among selected Czech organization representing a wide-range of industries as well as company sizes. The questionnaire focused on five different BE areas, namely, the management of BE within the respondents organizations, respondents opinions of BE practices in their industries, their experience of ethical conflicts, the factors influencing un(ethical) decisions, and the perceptions of the level of BE now compared to ten years ago. In addition, survey participants were also presented with four different hypothetical situations, in relation to which they were asked about their own course of action and their view of the behavior of an average manager in a given situation.

We find that that 61% of organizations are making more than "very little" effort to build ethical values in their organizations. The most common ethical enhancement instruments are corporate philosophy, code of ethics, contribution to social/cultural activity, and punishment for unethical conduct. We could also see that large companies are making more active effort and on average use more ethical instruments than SMEs, confirming the intuitive understanding of BE on the part of SMEs reported by previous literature (Čaník and Čaníková, 2006; Travníckova, 2005). Managers feel most responsible to customers, employees and stockholders, while the responsibility towards government or society is rather weak.

Unethical practices are seen to be widespread, implied by 78% of respondent reporting the existence of unethical practices in their industries. Bribing, unfair competitive practices, breaking or violating contracts and unfair pricing practices are perceived as the most problematic issues. Slightly over a half of survey participants have experienced an ethical conflict in their career, most often related to honesty in internal communication, offering bribes, and firings and layoffs. The fact that honesty in internal communication is clearly the most often cited cause of ethical conflicts may suggest changing understanding of BE, which is beginning to be seen more as an internal issue. However, more studies are needed to verify this notion. When facing an ethical conflict, majority of respondents are situational and cannot clearly state whether they their own or company interests would take precedence.

While one's personal code of behavior followed by company policy were reported as the most influential factors in making ethical decisions, personal financial needs and lack of company policy are viewed as the strongest factors for unethical decisions. In both cases, ethical climate of the industry was perceived as a relatively weak factor; however, the answers to other questions reveal a discrepancy between theory and practice and indicate that respondents own ethical standards are not in reality as influential as respondents would wish. Our findings also indicate that respondents' answers are biased by social desirability.

Finally, while 40% of respondents think that ethical standards nowadays are lower than ten years ago, 28% say ethical standards have improved over the same period. The negative responses largely come from the higher age group, confirming the difference between the respondents who spent most time under communist rule (40 years old and over) and those who gained most experience in market economy.

Providing more detailed view, situational questions largely support the above findings. However, as mentioned above, they also reveal a difference between theoretical answers and respondents' behavior when facing real situations.

The results of our study should be interpreted with caution. First, we acknowledge the limits of our study caused by the fact that the group of manufacturing industry and the group of large companies are slightly underrepresented, and the sample is relatively small. Despite that, we think that our findings point at clear and important trends and have enough validity to be taken seriously, as with increasing number of responses we could see the answers converging to confirm previously detected patters. Furthermore, as we repeatedly pointed out in the paper, we think the respondents' answers are influenced by various sorts of bias. In particular, the role of social desirability was obvious, and we could also observe that with increasing level of management position respondents were more reluctant to provide any answer which might make them appear as unethical. Moreover, when reading the results it is important bear in mind that generational difference plays a more important role in Czech as well as other ex-communist countries than the rest of Europe. It is so because the respondents from the age group of 40 and higher have spend most of their lifetime under a non-democratic regime suppressing their opinion, but at the same time simplifying many decisions due to the limited freedom of choice. Finally, as with any other surveys, we must not forget that self-selection also plays a role in our survey. It is likely that organization that do not consider BE issues important will be less willing to return a completed survey<sup>18</sup>. The results will be thus more

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<sup>18</sup> As a matter of fact, during our initial phone calls before sending out a questionnaire, we encountered this attitude several times. It also happened if a few cases that highly positioned managers (top-management level) claimed they do not understand the content of some questions in the questionnaire or that they do not

optimistically biased in the sense that they come from organizations (individuals) with at least certain amount of awareness of BE. Finally, it is also possible that the answers to some questions are biased by the prevailing impact of the recent economic crisis, as it is well known that sluggish or declining economy worsens the view of business environment.

Our study contributes to our understanding of BE in the CR in several respects. To our knowledge, this is the first study of BE in the Czech Republic of this extent that has been conducted since the economic crisis that hit the world economy in 2008, and as such, it can provide interesting insights on BE perceptions in the post-crisis environment. Furthermore, majority of comprehensive previous BE studies in the CR are rather old, as the newest one we have been able to find dates to 2006, which is a long time in the fast changing business environment of transitional economies. Another point is that unlike many previous studies, which either focus on in-depth investigation of one single BE instrument (Transparency International, 2006) or broadly cover CSR issues and consider BE just a part of them, our study is monothematic in the sense that it solely focuses on BE. Last but not least, our sample composition to large extent reflects opinions of SMEs, which are often neglected by other researches, as SMEs are likely to employ less sophisticated BE policies and instruments. We believe that our findings can be beneficial for any organizations focused on BE promotion or BE training. The findings of our study provide useful insights of how BE is perceived in 2010 and as such they can help these institutions better target their efforts. Our results can be also used for educational purposes. BE studies are still a new subject at Czech universities and the teachers still largely use teaching materials originated in other countries. Last but not least, our study can also provide more accurate information on Czech business environment to businessmen, often relying on their own experience when assessing business practices in their field (country), or any other economic subjects interested in cooperation with Czech companies.

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know what exactly BE is and then refused to complete the form with the excuse that it is too long and too much time is needed to fill it in.

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## **Tables:**

**Table 1 (Panel A): Descriptive Statistics of respondents**

| Descriptive Statistics                |  |             |
|---------------------------------------|--|-------------|
| 1. Age                                |  | <i>N=60</i> |
|                                       | 29 or under  | 10%         |
|                                       | 30-39  | 42%         |
|                                       | 40-49  | 20%         |
|                                       | 50 or over   | 27%         |
| 2. Education                          |  |             |
|                                       | High school graduate or less   | 12%         |
|                                       | Bachelor' degree or vocational school  | 13%         |
|                                       | Graduate school  | 75%         |
| 3. Management position                |  |             |
|                                       | Top management (president, chairman of board, executive director and board member)                                       | 22%         |
|                                       | Upper middle management (functional department head, assistant director of department and deputy director of department) | 32%         |
|                                       | Lower middle management (functional unit head)   | 32%         |
|                                       | Other (non-management personnel, assistant manager, supervisor and government officer)                                   | 15%         |
| 4. Industry                           |  |             |
|                                       | Manufacturing  | 14%         |
|                                       | Non-manufacturing (mining, construction, transportation, and other service industries)                                   | 86%         |
| 5. Company size: number of employees* |  |             |
|                                       | 1-49 (Small enterprises)   | 38%         |
|                                       | 50-249 (Medium size enterprises)   | 25%         |
|                                       | 250 or more (Large enterprises)  | 37%         |

\*Company size classification is based on Recommendation 2003/361/EC regarding the SMEs definition commonly used within the EU (<http://ec.europa.eu/enterprise/policies/sme/>).

### **Panel B: Number of respondents by management position (SMEs vs. Large Companies)**

| Company Size | Top (%) | Upper – middle (%) | Lower – middle (%) | Other (%) |
|--------------|---------|--------------------|--------------------|-----------|
| SMEs         | 76.9    | 73.7               | 52.6               | 44.4      |
| Large        | 23.1    | 26.3               | 47.4               | 55.6      |

*N=60.*



**Table 2: Existence of unethical practices**

|            | All (%) | Company Size |           | Management Position |                    |                    |           |
|------------|---------|--------------|-----------|---------------------|--------------------|--------------------|-----------|
|            |         | SMEs (%)     | Large (%) | Top (%)             | Upper – middle (%) | Lower – middle (%) | Other (%) |
| None       | 15.0    | 15.8         | 13.6      | 23.1                | 10.5               | 10.5               | 22.2      |
| Yes, a few | 61.7    | 63.2         | 59.1      | 61.5                | 63.2               | 63.2               | 55.6      |
| Yes, many  | 16.7    | 21.1         | 9.1       | 15.4                | 21.1               | 10.5               | 22.2      |
| Don't know | 6.7     | 0.0          | 18.2      | 0.0                 | 5.3                | 15.8               | 0.0       |

*N=60.*

**Table 3: Unethical practices most wanted to eliminate**

|  | All (%) | SMEs | Large |
|--|---------|------|-------|
| Giving of gifts, gratuities, and briberies | 53.2    | 50.0 | 60.0  |
| Price discrimination and unfair pricing    | 46.8    | 50.0 | 40.0  |
| Dishonesty in making or keeping a contract | 42.6    | 40.6 | 46.7  |
| Miscellaneous unfair competitive practices | 42.6    | 46.9 | 33.3  |
| Price collusion by competitors             | 27.7    | 28.1 | 26.7  |
| Cheating customers                         | 27.7    | 31.3 | 20.0  |
| Dishonest advertising                      | 23.4    | 25.0 | 20.0  |
| Unfairness to employees                    | 21.3    | 18.8 | 26.7  |
| Overselling                                | 12.8    | 18.8 | 0.0   |
| Unfair credit practices                    | 10.6    | 12.5 | 6.7   |
| Other and unspecified                      | 4.3     | 3.1  | 6.7   |

*N=47. The question was designed as multiple-choices type, the respondents were asked to check as many answers as applicable. Percentage among those who answered this question.*

**Table 4: Company efforts to build ethical values into organization**

|                      | All (%) | Company Size |           | Management Position |                    |                    |           |
|----------------------|---------|--------------|-----------|---------------------|--------------------|--------------------|-----------|
|                      |         | SMEs (%)     | Large (%) | Top (%)             | Upper – middle (%) | Lower – middle (%) | Other (%) |
| Yes, very eagerly    | 13.6    | 10.8         | 18.2      | 46.2                | 66.7               | 63.2               | 66.7      |
| Yes, to some extent  | 47.5    | 40.5         | 59.1      |                     |                    |                    |           |
| Yes, but very little | 13.6    | 18.9         | 4.5       | 30.8                | 5.6                | 10.5               | 11.1      |
| Not at all           | 25.4    | 29.7         | 18.2      | 23.1                | 27.8               | 26.3               | 22.2      |

*N=59.*

**Table 5 Panel A: Methods of building ethical values into the organization**

|   | All (%) | Company Size |         |
|---|---------|--------------|---------|
|   |         | SMEs (%)     | Big (%) |
| Corporate philosophy including ethics             | 86,4    | 80,8         | 94,4    |
| Code of ethics                                    | 45,5    | 34,6         | 61,1    |
| Contribution to social/cultural activity          | 43,2    | 34,6         | 55,6    |
| Punishment for unethical conduct                  | 34,1    | 23,1         | 50,0    |
| Employee training in ethics                       | 27,3    | 15,4         | 44,4    |
| CEO's frequent statements on ethics               | 18,2    | 23,1         | 11,1    |
| Following parent company's philosophy             | 18,2    | 15,4         | 22,2    |
| Anonymous Reporting Hotline for unethical conduct | 11,4    | 3,8          | 22,2    |
| Suggestion system on ethics                       | 6,8     | 0,0          | 16,7    |
| Ombudsman   | 6,8     | 3,8          | 11,1    |
| Social auditing                                   | 6,8     | 7,7          | 5,6     |
| Ethics committee                                  | 0,0     | 0,0          | 0,0     |
| Other and unspecified                             | 0,0     | 0,0          | 0,0     |

*N=44.*

**Table 5 Panel B: Average number of ethical enhancement tools for SMEs and large companies by management position**

|                         | ALL | SMEs | Large | All | SMEs | Large |
|-------------------------|-----|------|-------|-----|------|-------|
| Top management          | 3.0 | 2.4  | 3.9   | 2.6 | 1.6  | 5.0   |
| Upper middle management |     |      |       | 2.9 | 2.4  | 4.3   |
| Lower middle management |     |      |       | 3.2 | 3.3  | 3.1   |
| Other                   |     |      |       | 3.7 | 2.5  | 4.3   |

*N=44.*

**Table 6: Success of the effort**

|                     | All (%) | Management Position |                    |                    |           |
|---------------------|---------|---------------------|--------------------|--------------------|-----------|
|                     |         | Top (%)             | Upper – middle (%) | Lower – middle (%) | Other (%) |
| Very satisfactory   | 26.7    | 40.0                | 28.6               | 23.1               | 12.5      |
| Satisfactory        | 48.9    | 30.0                | 64.3               | 46.2               | 50.0      |
| Unsatisfactory      | 2.2     | 0.0                 | 7.1                | 0.0                | 0.0       |
| Very unsatisfactory | 0.0     | 0.0                 | 0.0                | 0.0                | 0.0       |
| Cannot tell         | 22.2    | 30.0                | 0.0                | 30.8               | 37.5      |

*N=45.*

**Table 7: Company responsible to social groups (mean ranks)**

|                    | All | SMEs | Large |
|--------------------|-----|------|-------|
| Customers          | 1.7 | 1.4  | 2.1   |
| Employees          | 2.8 | 2.6  | 3.1   |
| Stockholders       | 3.0 | 3.3  | 2.6   |
| Suppliers          | 4.3 | 4.1  | 4.7   |
| Society in general | 4.4 | 4.6  | 4.1   |
| Government         | 6.1 | 6.8  | 5.1   |
| Dealer             | 6.3 | 6.1  | 6.7   |
| Local community    | 6.4 | 6.3  | 6.6   |

*N* =58. Number 1: social group to which respondents feel most responsible, n. 8: social group to which respondents feel least responsible.

**Table 8 Panel A: Experience of conflicts between company interests and personal ethics**

|     | All (%) | Company Size |           | Management Position |                    |                    |           |
|-----|---------|--------------|-----------|---------------------|--------------------|--------------------|-----------|
|     |         | SMEs (%)     | Large (%) | Top (%)             | Upper – middle (%) | Lower – middle (%) | Other (%) |
| Yes | 50.8    | 55.3         | 42.9      | 38.5                | 52.6               | 50.0               | 66.7      |
| No  | 49.2    | 44.7         | 57.1      | 61.5                | 47.4               | 50.0               | 33.3      |

*N*=59.

**Table 8 Panel B: Experience of conflicts between company interests and personal ethics SMEs and large companies by management position**

|     | SMEs    |                    |                    |           | Large   |                    |                    |           |
|-----|---------|--------------------|--------------------|-----------|---------|--------------------|--------------------|-----------|
|     | Top (%) | Upper – middle (%) | Lower – middle (%) | Other (%) | Top (%) | Upper – middle (%) | Lower – middle (%) | Other (%) |
| Yes | 40.0    | 50.0               | 60.0               | 100.0     | 33.3    | 60.0               | 37.5               | 40.0      |
| No  | 60.0    | 50.0               | 40.0               | 0.0       | 66.7    | 40.0               | 62.5               | 60.0      |

*N*=59.

**Table 9: Issues with regard to which conflicts between company interests and personal ethics were experienced**

|   | All (%) |
|---|---------|
| With regard to                                |         |
| Honestly in internal communication            | 50.0    |
| Gifts, entertainment, and kickbacks           | 36.7    |
| Firings and layoffs                           | 36.7    |
| Honesty in executing contracts and agreements | 30.0    |
| Fairness and discrimination                   | 26.7    |
| Honesty in external communication             | 26.7    |
| Price collusion and pricing practices         | 16.7    |
| Other and unspecified                         | 3.3     |

*N*=30.

**Table 10: Social groups with regard which ethical conflicts were experienced**

|                        | All (%) |
|------------------------|---------|
| With regard to         |         |
| Suppliers              | 48.4    |
| Employees              | 41.9    |
| Customers              | 32.3    |
| Colleagues             | 29.0    |
| Competitors            | 25.8    |
| The law and government | 22.6    |
| Superiors              | 16.1    |
| Society in general     | 3.2     |
| Other and unspecified  | 3.2     |
| Stockholders           | 0.0     |

*N=31.*

**Table 11: Ethical decision - company interests or personal ethics**

|                          | Management Position |         |                    |                    |           |
|--------------------------|---------------------|---------|--------------------|--------------------|-----------|
|                          | All (%)             | Top (%) | Upper – middle (%) | Lower – middle (%) | Other (%) |
| Company interests        | 12.9                | 25.0    | 18.2               | 10.0               | 0.0       |
| Personal ethics          | 22.6                | 75.0    | 18.2               | 20.0               | 0.0       |
| Depends on the situation | 64.5                | 0.0     | 63.6               | 70.0               | 100.0     |

*N=31.*

**Table 12: Have respondents reported unethical practices?**

|     | All (%) |
|-----|---------|
| Yes | 26.3    |
| No  | 73.7    |

*N=57.*

**Table 13: Why were not unethical practices reported?**

|  | All (%) |
|--|---------|
| It was difficult to decide whether the practices were ethical or not   | 20.6    |
| Even if reported, it would be difficult to correct the unethical practice                                      | 23.5    |
| It was questionable whether my identity as the person who reported the unethical practice would be kept secret | 17.6    |
| I would receive negative judgment from my superior or colleagues   | 0.0     |
| Other  | 11.8    |

*N=34.*

**Table 14: Factors influencing *ethical* decisions (mean ranks)**

|   | All | SMEs | Large |
|---|-----|------|-------|
| One's personal code of behavior             | 1.9 | 2.1  | 1.6   |
| Company policy                              | 2.3 | 2.1  | 2.4   |
| The behavior of one's superiors             | 2.7 | 2.8  | 2.6   |
| The behavior of one's equals in the company | 3.7 | 3.4  | 3.9   |
| Ethical climate of the industry             | 4.3 | 4.1  | 4.5   |

*N=58. Number 1 the most influential factor, n. 5the least influential factor.*

**Table 15: Factors influencing *unethical* decisions (mean ranks)**

|   | All | SMEs | Large |
|---|-----|------|-------|
| One's personal financial needs              | 2.4 | 2.3  | 2.5   |
| Company policy or lack thereof              | 2.7 | 2.8  | 2.5   |
| The behavior of one's superiors             | 2.8 | 2.9  | 2.5   |
| The behavior of one's equals in the company | 3.3 | 3.4  | 3.2   |
| Ethical climate of the industry             | 3.7 | 3.4  | 4.1   |

*N=58. Number 1 the most influential factor, n. 5the least influential factor.*

**Table 16: Ethical standards today compared to 10 years ago**

|                        | All (%) | Age group       |                 |
|------------------------|---------|-----------------|-----------------|
|                        |         | 39 or under (%) | 40 and over (%) |
| Higher standards today | 27.6    | 38.7            | 15.4            |
| About the same         | 32.8    | 25.8            | 38.5            |
| Lower standards today  | 39.7    | 35.5            | 46.2            |

*N*=58.

**Table 17: Factors causing higher standards**

|  | All (%) |
|--|---------|
| Public disclosure, publicity and media coverage  | 76.2    |
| Increased public awareness and scrutiny  | 71.4    |
| Increase in manager professionalism and education  | 66.7    |
| New social expectations for business's role in society                                   | 52.4    |
| Top management's emphasis on ethical action  | 42.9    |
| Business's greater sense of responsibility   | 42.9    |
| Increased commitment of corporations to cultural and environmental protection activities | 28.6    |
| Government regulation, legislation, and intervention                                     | 28.6    |
| Other  | 4.8     |

*N*=21.

**Table 18: Factors causing lower standards**

|  | All (%) |
|--|---------|
| Greed and the desire for gain  | 90.9    |
| Political corruption and loss of confidence in government              | 84.8    |
| Competition and the current economic conditions                        | 57.6    |
| Pressure for profit from superiors within the company                  | 54.5    |
| Lack of personal integrity   | 48.5    |
| Society's standards are lower  | 45.5    |
| Media coverage and communications create atmosphere for unethical acts | 39.4    |
| Pressure for survival in a slow economy                                | 27.3    |
| Other  | 0.0     |
| Greed and the desire for gain  | 90.9    |

*N*=33.

**Table 19: Hypothetical situations**

|  | Oneself (%) | Average manager (%) |
|--|-------------|---------------------|
| Situation 1 (N = 49)   |             |                     |
| Acceptable if other executives in the company do the same thing  | 5.1         | 31.6                |
| Acceptable if the executive's superior knows about it and says nothing   | 27.1        | 40.4                |
| Unacceptable regardless of the circumstances   | 67.8        | 28.1                |
| Situation 2 (N = 49)   |             |                     |
| Probably would   | 79.7        | 96.6                |
| Probably would not   | 20.3        | 3.4                 |
| Situation 3 (N = 48)   |             |                     |
| Refuse to pay, even if sale is lost  | 37.9        | 5.3                 |
| Pay the fee, feeling it was ethical in the moral climate of the foreign nation   | 8.6         | 33.3                |
| Pay the fee, feeling it was <b>un</b> ethical but necessary to help insure the sale  | 53.4        | 61.4                |
| Situation 4 (N = 49)   |             |                     |
| Issue an order stopping future payments and reduce salespeople's pay in the amount equal to their commissions on the sales gained as a result of future payments | 15.3        | 7.0                 |
| Issue an order stopping future payments, but do not reduce sales people's pay  | 59.3        | 22.8                |
| Say and do nothing   | 25.4        | 70.2                |

*In relation to hypothetical situations, respondents were asked the following questions:*

**Situation 1:** *An executive earning EUR 100,000 a year has been padding his expense account by about EUR 5,000 a year. What do you think?*

**Situation 2:** *Imagine that you are the president of a company in a highly competitive industry. You learn that a competitor has made an important scientific discovery which will give him an advantage that will substantially reduce the profits of your company for about a year. If there were some hope of hiring one of the competitor's employees who knew the details of the discovery, what would you do?*

**Situation 3:** *The minister of a foreign nation, where extraordinary payments to lubricate the decision-making machinery are common, asks you, as a company executive, for an EUR 250,000 (about 6,250,000 CZK) consulting fee. In return, he promises special assistance in obtaining a 100 million EUR (2. bil CZK) contract which should produce, at least, a 5 million EUR (125 mil CZK) profit for your company.*

**Situation 4:** *Imagine that you are a regional sales manager for a large industrial supply company and your salespeople are giving money to purchasing agents to obtain sales. This is beyond the generally acceptable meal or promotional item. Assuming that no laws are being violated, what would you do?*

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