

# *Integrity in Business*

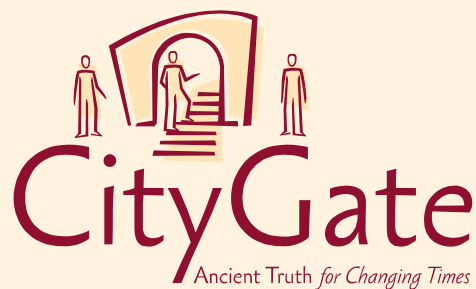
*In Postcommunist Central Europe*

An analysis of the problem in postcommunist society of moral integrity and of values in the seemingly 'value-free' area of business.

## A CityGate Field Study

Written by

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*Juraj Kušnierik*

Edited by

Marsh Moyle

This is the first edition of this paper. We would like to thank all who shared their experiences and helped us with their insight. We would appreciate all your comments and critique. They might help us to fill the gaps we left out, and correct our unintended mistakes.

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## **Introduction**

Six years after the fall of communism in Central and Eastern Europe, the word “business” is a common word in local vocabularies. Almost one half of the economically active population is employed by private companies. Many people now own their own businesses. Some sectors of the economy, such as retail or service, are almost exclusively private.

Today no one questions that corruption and bribery thrived under a distorted “existing socialism”, as it was experienced in Central and Eastern Europe. It was only natural that great hopes were placed in the new structures introduced after the revolutions of 1989. They were expected to be not only much more profitable and efficient, but also ethically superior. Several problems appeared very soon, though.

First, it looked like money and profit somehow ended up in the wrong hands. Many Bolsheviks turned into capitalists almost overnight. One could see many examples of people with “questionable” ethical records becoming successful and aggressive entrepreneurs, managers and shareholders.

At the same time, many shoppers found out that the new owners of privatised shops do not necessarily behave much better than the former state-employed managers. Instances where groceries were sold after the expiration date, dishonest prices, together with the general “customer-unfriendly” behaviour of many shop assistants were, unfortunately, not rare.

Then big scandals hit the news - money laundering, large scale bribing, buying of political support, ‘greasing’ state officials, etc.. A largely negative attitude towards business and businesspeople was the result.

This development led many businessmen, journalists, politicians and management consultants to serious consideration of the ethical dimensions of economic activity. Business ethics became part of the economic universities curricula. Many articles stressing the importance of ethics in business appeared in leading local, as well as regional, business newspapers and magazines<sup>1</sup>. Most of these articles come to a simple conclusion: economy without the proper cultural and ethical framework does not work.

The goal of this paper is not to add more reasons why this is so. What we have tried to do is to describe “how it feels” to do business in postcommunist Central Europe. The main aim of the paper is to ask questions. That is why we tried, as much as possible, to avoid suggesting answers or solutions. Many Central European businesspeople told us about the same experience - it is nice to listen to a Western management consultant teaching a theory of business ethics, but one finds these theories are often too simplistic and detached from the complex postcommunist reality. The questions and

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<sup>1</sup> As this paper goes to press, cover stories of the two most important regional economic magazines - *Business Central Europe* (Dec 95 - Jan 96) and *Central European Economic Review* (Nov 95)- deal with the problems of business ethics in the region.

problems raised in this paper will have to be answered and solved by local businesspeople themselves. Perhaps all their Western colleagues can do is to encourage them in their difficult but often honest search for solutions and to stimulate their creativity by sharing experiences and examples.

I have never been a businessman. Most of what I wrote about in this paper I learned from people who not only do business but also think about it. I found many brave and courageous men and women among them who, often in difficult situations, do what they understand to be their vocation and do it very well. I have great respect for them.

The idea of writing a paper on integrity in business came from The Ethics Development Initiative (EDI) of C.A.R.E., London. They co-sponsored the survey about the ethical awareness of businesspeople in Poland and Slovakia that took place in Spring, 1994<sup>2</sup>. I would like to thank Luke Bretherton of EDI for his support and for stimulating and useful comments.

Marek Kucia of Jagiellonian University, Krakow, co-ordinated the survey in Poland. He not only gathered and analysed data, but also put our research into a broader academic and theoretical framework.

David J. Murray of Maine Consulting Services, Blackburn, UK, has provided invaluable help in each phase of the research. He graciously shared his experience and insight. I have learned a lot from him. He gave very thoughtful comments about the first draft of this paper.

And, finally, Milan Cícel, management consultant, Bratislava, and my friend and mentor inspired me significantly during the research for this paper. He also helped with insight and experience. I have been learning a lot by watching his life of integrity.

If you find this paper interesting and useful, it is very likely because of the help of these excellent people. Any mistakes, absurd conclusions, subjective judgements or unmatched data are, of course, mine. If you find any of them, please, contact us and help us to see them too.

Bratislava, December, 1995

Juraj Kušnierik

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<sup>2</sup> See Appendix I for the survey report

## ***The Cultural and Economic Context of Postcommunist Central Europe***

### **Central and Eastern Europe - What is the difference?**

“This is not Eastern Europe here, this is *Central* Europe!”, we used to explain to our foreign guests some ten years ago. What we really meant was that it is not as bad here as in the Soviet Union or Romania; that in spite of strong oppression we have brilliant art and culture; that we are a part of Western history and traditions. Now, five years after the revolutionary fall of 1989, there are still significant differences between Hungary and Ukraine, Poland and Romania.

What are those differences?

1. *Geography.* Poland, the Czech Republic, Slovakia and Hungary form the “western part” of Eastern Europe. Prague is actually further west than Vienna. Each of these countries have borders with at least one EU member. They are geographically located between the German-speaking (Austria and Germany) and Russian-speaking parts of Europe.
2. *Pre-W.W.II History.* Austria, Hungary, the Czech Republic, Slovakia, together with Southern Poland (Galicia) and Northern Romania (Transylvania) used to be parts of the Austro-Hungarian Empire for several hundred years.
3. *Post-W.W.II History.* Poland, Czechoslovakia and Hungary became Soviet satellites with varying degrees of sovereignty. Opposition to Soviet communism led to violent clashes with the police and army in each of them.
4. *Culture.* Common history leads to a unique mixture of national cultures and ways of life. Most of the citizens spoke two or three languages fluently (the local language plus Hungarian and/or German) before W.W.II. From the point of view of the topic of this paper we must also mention the traditional Austrian bureaucracy which permeated the entire empire and remained an important part of the general culture even during the communist period.<sup>3</sup>
5. *Politics.* The process of transformation after 1989 led to relatively stable political systems. The governments of the four Central European countries clearly expressed their commitment to a free-market economy and parliamentary democracy - two political conditions for becoming part of Western European political structures. The Presidents of Hungary, Czechoslovakia and Poland signed a document about mutual cooperation and good relationships in February 1991 in the Hungarian castle of Visegrad. These countries have since been referred to as “The Visegrad Group” (V4). All of the Visegrad countries signed Association Agreements with the EU and declared NATO membership as the goal of their foreign policy.
6. *Religion.* Central European countries are Roman Catholic countries. While Poland is almost exclusively Catholic (90%), the Lutheran Church in the Czech Republic and Slovakia, and the Reformed (Calvinist) Church in Hungary are considered to be “large”, or “popular” churches as well. It could be said that the eastern and southern borders of the Visegrad countries are the borders between eastern and western Christian traditions.

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<sup>3</sup>On the issue of bureaucracy in postcommunist Europe, see Marsh Moyle: *Bureaucracy - How to Live With the System and Sometimes Beat It*, a research paper by Stredo-Európska Nadácia (CityGate), Bratislava, Slovakia, 1994.

7. *Economics.* The Visegrad countries were economically prosperous before the communists took over their economies. Even though the communist regime did a lot of harm, the standard of living was always higher than in Eastern and Southern Europe. Thus the transformation of economic and financial institutions after 1989 was relatively easier. Private agriculture in Poland, partial economic reforms in Hungary and a pre-W.W.II industrial tradition in Czechoslovakia helped to sustain a certain level of entrepreneurial culture in spite of the pressures of command economies. On December 21, 1992 the Central European Free Trade Association agreement was signed in Krakow, Poland aimed at speeding up liberalisation of mutual trade.<sup>4</sup>

To use Milan Kundera's famous definition we may say that "Central Europe was geographically in the Center, culturally in the West and politically in the East".

"The difference between the Visegrad countries and the Balkans is even bigger than the gap between the EU and the V4.", says Istvan Racz of CS First Boston.<sup>5</sup>

### **Integrity (Not Only In Business) Under Communism**

More than five years have passed since the fall of communism in Eastern Europe. It is now out of fashion to look back and revive old memories. But in order to understand the problems of integrity in business in the postcommunist countries we have to do it.

Life under communism was complex. What was officially proclaimed was not all there was - in spite of a rigid command economy there was a blossoming informal market, in spite of an official commitment to build communism everybody envied the "rotting capitalism"<sup>6</sup>, in spite of the strict Party control of culture and religion there were "islands of normality" in unofficial cultural movements and churches.

Instead of trying to describe the problems of integrity under communism in its complexity, we will just list several consequences, important from the point of view of this paper. For a more detailed description of the impact of communism on the way people think we refer the reader to the research paper *Shadows of the Past* by Juraj Kušnierik and Milan Cícel<sup>7</sup>.

#### ***Impacts of communism on the current business culture:***

- *Double Ethics.* A great gap developed between public and private attitudes. While trust and responsibility were highly appreciated values within small circles of

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<sup>4</sup>For economic and demographic indicators of the Central European countries see Appendix 2.

<sup>5</sup>Quoted in *Central European Economic Review*, May 1995

<sup>6</sup>An official textbook euphemism.

<sup>7</sup>J. Kušnierik, M. Èíèel: *Shadows of the Past*, a research paper by Stredo-Európska Nadácia (CityGate), Bratislava, Slovakia, 1994. The paper deals with the impact of 40 years of communism on the attitudes of people in postcommunist countries in various spheres of life, such as politics, public life, business, religion and culture. For information about the availability of this and other CityGate Research Papers, see the information about CityGate/CEMF on the last page of this paper.

friends, they were considered as dangerously naive in public life. “We have become morally ill because we have become accustomed to saying one thing and thinking another.” said Vaclav Havel in his 1990 New Year’s address.

- *Lack of Responsibility for Public Affairs.* An entire generation of people adopted the attitude that this is the responsibility of the State, led by professional politicians. Grassroots movements and initiatives were impossible under communism and are still rare now. “The notion of social responsibility is something very new here,” says Ludmila Nemcova, who teaches business ethics at the Prague School of Economics.<sup>8</sup>
- *Informality.* Unofficial, informal structures were necessary for survival. 33% of GDP was created by informal economic activity in Hungary in 1985<sup>9</sup>. The usefulness of the informal sector during the last years of communist rule became a difficult barrier in the necessary institutionalisation of economic transactions over the last 5 years. Many ethical implications of this problem will be mentioned later in this paper.
- *Egalitarianism.* Although everybody wanted to be “rich and healthy”, the ideology of egalitarianism and forced solidarity, together with the obvious connection between material wealth and loyalty to the Party, bore their fruits. Success in business and growing wealth are still considered to be suspicious, or even immoral in principle.
- *Strong Expectations of the State.* The communist State cared for its citizens from the cradle to the grave. A certain level of social security and health insurance was guaranteed in the Central European Soviet satellites. Responsibility for one’s own welfare and creativity in providing it was diminished. The political comeback of neo-communist parties in the second free elections after 1989 in the whole of Eastern Europe is one expression of this legacy.

It is necessary to avoid simple conclusions in evaluating life under the communist regime. There certainly were a few heroes as well as cowards. But most people tried to live their lives with integrity and dignity in so far as the system allowed. For the people who experienced ideological brainwashing in the 1950s and disappointed expectations in the 1960s, a change of the regime or its major reformation seemed unimaginable.

Today, the old communistic political and economic system has been significantly transformed. Detachment from public life, once considered as an honest way to protect one’s integrity, has become an expression of irresponsibility. Bribing a doctor to get a high-quality treatment<sup>10</sup> changed to official payment for services. Taxes - once an insignificant, almost unknown issue<sup>11</sup> - have become a hot topic of ethical discussions.

The transition brings an entirely new set of issues with it. We will list some of them:

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<sup>8</sup> Central European Economic Review, November 1995

<sup>9</sup>Endre Sik: From The Second Economy To The Informal Economy, Centre for the Study of Public Policy, University of Strathclyde, Glasgow, Scotland, 1992.

<sup>10</sup>Although health care was free, it was quite common to “slip an envelop” into the doctor’s pocket in order to make sure that he paid special attention to the patient.

<sup>11</sup>The only taxation that existed under communism was a tax subtracted from one’s wages. Tax statements, VAT, corporate tax, etc. were unknown terms.

- capital in the wrong hands - the communist nomenclature entered the privatisation process with lots of “dirty money”, made when they were the privileged class;
- political privatisation - through the sale of lucrative state-owned property at cheap prices, the government buys loyal supporters;
- holes and inconsistencies in the legal system - although laws are never perfect, there are many more discrepancies during a period of transformation;
- the customer is always right - a very important, but sometimes painful, paradigm shift from a command to a market economy;
- unemployment - once an unknown phenomenon, now a bitter reality;
- profit-making - is it right or wrong?
- inflation - which is wiser: to save, to invest, or to spend?
- lack of trust in business transactions - sellers don't trust their customers, bankers don't trust their clients, businessmen don't trust their partners, employees don't trust their bosses - and often for very good reasons.

These are some of the issues brought on by the rapid transformation that is taking place in postcommunist Europe. We will look at some of them with more detail in the following pages.

## ***Doing Business in Central Europe***

### **Business Between Communism and Capitalism**

Economics is usually defined as a system of administration of scarce resources in a community. “Scarce resources” could mean anything that members of a community *need*.

There was a famous communist dictum, expressing the ultimate goal of economic order: “Everybody works according to his abilities, everybody is rewarded according to his needs”. The reality of Eastern European communist countries tested this slogan and found it extremely naive, even dangerous. National planning committees decided what were people’s abilities, and their needs. Five Year Plans were the results of their scientific activities. Although they were often officially fulfilled by 150%, shortages of various products were permanent.

In a market economy it is people, as clients and customers, who decide what to produce, when, where and how much. “The customer is always right”. The more needs one has, the better. It is, of course, complicated by money. Money is actually one of the most important things - everything can be expressed in financial terms. There are no shortages, no service is impossible - one only has to be ready to pay the price.

Neither of the previous two paragraphs describe the situation in postcommunist Central Europe. Neither describes it *accurately* - the reality is somewhere in between.

The transformation of postcommunist economies consists of two important aspects:

1. Development of Institutions. Institutions essential for a free-market economy: banks, stock exchange, tax offices, were practically non-existent. They had to be either significantly transformed or established from scratch.
2. Paradigm change. Any institution may turn out to be useless if people do not trust it or do not know how to “use” it. It is very difficult to build a market economy whilst retaining a deeply embedded socialist mentality.

Whoever is doing business in today’s Central Europe has to be ready to walk on shifting sands. He will encounter everything from the old-time communist mentality of government officials to unscrupulous, money-thirsty businessmen.

It is typified by the cars on the streets of Central European cities - old Ladas and Trabants mixed with the latest models of BMW and Mercedes; or our bank in Bratislava - a new fancy glass-and-marble building furnished with smiling staff and high-tech computers, but it takes three days minimum to transfer money from one account to another (in the same bank).

"‘All the governments in the region have a laissez faire attitude towards the black market,’ said Andras Vertes, CEO of GKI Economic Research Co. The ‘hidden’ or ‘grey’ economies, including various forms of tax evasion, account for 30% of Poland and Hungary's economies, said Vertes, citing his firm's research for the OECD. Between 20% and 40% of Hungary's 500,000 so-called unemployed are actually working off the books, he says, which relieves a degree of social pressure that would otherwise be levelled against the beleaguered administration.”<sup>12</sup>

### **Who are the Central European Business People?**

Taken together, the four Visegrad countries' biggest companies boosted their revenues to \$69.33 billion in 1994, an increase of 4%. And profits in the same companies rose by a robust 30% to \$2.95 billion.<sup>13</sup> Who is behind these noteworthy economic results?

In each issue of *The Wall Street Journal Europe's, Central European Economic Review*, is a column called “Businesspeople Of the Month”. Here are a few examples:

Zbigniew Grycan in Poland started as an ice-cream seller in 1980 and now owns the leading domestic ice-cream brand, successfully competing with Germany's Schoeller and the Netherlands's Unilever<sup>14</sup>.

Attila Dobai in Hungary started his company called Fornax Rt. in 1990 as a computer retailer. By 1994 it had become a big information management and telecommunications equipment company, bringing in 529 million forints (\$4.8 million) revenue with a profit of 19.1 million forints<sup>15</sup>.

Andrzej Debowski in Poland saw his niche in the market in the production of small plastic products which he started to produce in his garage in the mid-1980s. In 1989 he “took a car and went West”, as he says. He established a link with Danish plastics distributor Plast Team AS. His revenues for the first half of 1994 were 178 billion zloty (\$7.7 million)<sup>16</sup>.

Stories like these are not unusual. Somebody compared postcommunist Eastern Europe to America's Wild West - anybody with creativity and entrepreneurial spirit could start a potentially successful business. It was not so difficult to find a market niche since demand far outstretched supply. There were only two 24 hour gas stations and one pizzeria in Bratislava, a city with almost half a million inhabitants. It was almost impossible to buy Levi jeans, even in big cities, such as Prague or Budapest.

The problem with some of these *nouveaux riche* is that they became rich too quickly. They buy fancy cars, wear designer clothes, and spend holidays in Thailand. Such

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<sup>12</sup>Hungary Report No. 1.19, August 8, 1995, Budapest, Hungary.

<sup>13</sup>Central European Economic Review, May 1995

<sup>14</sup>Central European Economic Review, February 1995

<sup>15</sup>Central European Economic Review, March 1995

<sup>16</sup>Central European Economic Review, Autumn 1994

lifestyles cause great resentment in their communities, and a general perception of businessmen as a band of crooks and robbers.

Not everybody started in a garage with a little money and a great idea. Some started their businesses through restitution or privatisation. Privatisation, i.e. buying state-owned property, was an especially sensitive, and politically easily misusable issue. It has been possible to buy a profitable state-owned company for half of its book price (for a pledge of political loyalty, usually) with payments spread over ten years. Or the so called “privatisation by management”, in which case a state-owned company’s management registers a limited company and starts to move capital into it. The state-owned company then goes bankrupt and its management’s Ltd. company continues in its business.<sup>17</sup>

There are many ethical questions raised by this situation. We might shed some light on them in the following chapters. A general, and obviously pragmatic, observation after five years of “postcommunist capitalism” is that private business works better than state-owned ones. It seems that old Adam Smith was right - the “invisible hand of market” really does force people to serve others in order to survive. Or in order to buy a new Mercedes.

“Many of these entrepreneurs are very rude and primitive - simple people but dynamic.”

“[Their] basic value system is materialism - eating, drinking, wining, holidays”

“They like freedom - freedom to earn money. They don’t like democracy too much, but there’s no alternative, because they don’t like communism, monarchy or military rule either.”

“It’s better to have a jungle for a few years, because it’s more conducive to growth. The crooks of today are the serious businessmen of five years from now. Then they’ll want to protect their assets, and will become law-abiding.”<sup>18</sup>

### ***Ethical Problems - The Big Picture***

In a survey, commissioned by Central European Foundation (Stredo-Európska Nadácia, CityGate) in February 1994<sup>19</sup>, a sample of Polish and Slovak businesspeople were asked to specify the biggest problems they see in doing business. The majority of answers fell into four categories:

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<sup>17</sup>Jerzy Bralczyk of the University of Warsaw’s Institute of Journalism “worries that words and concepts that, just a few years ago, characterised beneficial aspects of reform, now are taking on negative connotations. To many Poles’ ears, ‘privatisation’ suggests ‘stealing’ as much as it does ‘economic reform’.” (Central European Economic Review, February 1995)

<sup>18</sup>All quotes in the box are by Prof. Christian Haerpfer of the Centre for the Study of Public Policy, Vienna, quoted in the Business Central Europe, April 1995

<sup>19</sup>Ethics in Business in Poland and Slovakia, February-March 1994. For details see Appendix I.

1. Economic and financial situation;
2. Problems of legislation;
3. Moral climate in society;
4. Government's attitude towards entrepreneurs.

All of these issues deal with the macro-economic, political and legal situation. Problems of business ethics and integrity in the postcommunist world are widely perceived as a depressing struggle with a corrupt neo-communist bureaucracy. In the next chapter we will show that this is not the only root of the problem. Before doing so, however, we shall briefly discuss several aspects of business ethics in the context of the Constitution, law, government and macro-economic policy.

### **Does It Matter Who Is In the Government?**

Obviously it does, everywhere in the world, but I would argue that it matters even more in postcommunist Central and Eastern Europe.

It matters because the basic principles and values upon which the postcommunist countries are to be built are not yet clear. The fear of dramatic changes in the political and economic orientation of the country was very vivid after neo-communist parties won in the elections, as was the case in Poland, Hungary as well as in Slovakia. It was not just a shift to left - many people were afraid of a return to some form of socialism.

Although socialism as we knew it before 1989 has not returned to Central Europe, it is still extremely important who is in the government. There are many decisions of fundamental importance for the future of the countries still to be made. And there is still much state-owned property to be privatised.

**Privatisation** of state-owned property is worth mentioning here in greater length.

Almost all of the property under the communist regime was owned by "the people"<sup>20</sup>. This changed after the revolutionary year of 1989. There were different approaches taken by the post-revolutionary governments of Poland, Czechoslovakia and Hungary, but the amount of property to be privatised was quite substantial in each country. The process of privatisation brought many difficult ethical questions with it. We shall list some of them:

- *Restitution - how far back should we go?* People whose property was illegally taken by communist authorities had the right to apply for its partial or full return. The basic idea of restitution is to correct at least some of the injustice caused by an unjust system. The communist coup in Czechoslovakia took place on February 25, 1948 ("Victorious February" used to be the official name of that event). The first law on restitution, passed by Czechoslovak parliament in 1990, specified exactly that date as the starting date for applications - i.e. only those, whose property was taken after February 25, 1948 could apply to get it back. But what about Czech and

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<sup>20</sup>An important exception were Polish private farms.

Slovak Jews whose property was taken by Nazis during W.W.II and, because of lack of time (and political will), were not given it back before February 1948? And Sudeten Germans forced to leave Czechoslovakia in 1945 with 30 kilos of belongings per person<sup>21</sup>? And what about the royal family of Liechtenstein, whose lands, forests and castles were nationalised after W.W.I<sup>22</sup>? Those are difficult questions, especially if we add to them the fact that many of the restitutees were quite rich and after getting their property back are rich again - hard stuff in an egalitarian postcommunist climate.

Sometimes it looks like one act of justice brings with it a hundred difficult ethical and practical problems.

- *Privatisation by management - those at the top always win.* Some companies are privatised by their employees. The company's management prepares the project, which is then accepted by the Ministry of Privatisation. A company is then transformed into a public company. Its management and employees have an opportunity to buy a certain percentage of shares for a special price<sup>23</sup>. This whole process is often perceived as a trick of the company's leadership. There are many possibilities to use insider information, to "grease" reluctant state bureaucrats, or to transfer part of the still state-owned company into a small Ltd. company owned by the director's wife. All of these things have happened many times in the process of economic transformation.

"One Western businessman in Hungary describes a typical scenario: An investor makes a sealed bid to buy a state firm. Soon he's visited by a mid-level privatisation official who offers to 'accelerate' the process, and suggests a BMW or an Austrian ski trip might do the trick."<sup>24</sup>

- *Voucher privatisation - 8,000,000 capitalists.* Voucher privatisation turned socialist Czechoslovakia into a country of capitalists almost overnight. About 80% of the Czechoslovak population became shareholders by registering their "voucher book" and "investing" points into newly privatised companies. The whole process was perceived as a game in the beginning, but after a massive campaign by newly established "investment funds", promising to pay back 10,000 crowns (10 times the price of the voucher book) in one year, people understood it was serious. Some people "invested" better than others, but it seems nobody lost in the end. The philosophy of voucher privatisation was based on the assumption that "national property" was really national - every citizen should have a chance to get at least a little bit of it. This is quite a strong ethical statement in itself. But since the property was not distributed equally, some people (usually those who did not "invest" very well) were not satisfied. Another common attitude is that since most of the property privatised through vouchers actually ended up in the hands of the

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<sup>21</sup>The issue of Sudeten Germans, on whom the principle of "collective guilt" was applied, is a hot topic in Czech-German relationship. It disturbs this important international relationship today.

<sup>22</sup> The area the Liechtenstein family owned in the Czech Republic is bigger than the country of Liechtenstein.

<sup>23</sup> This type of privatisation is most common in Hungary, where it is usually coupled with foreign investment into the privatised companies resulting in joint ventures.

<sup>24</sup> Central European Economic Review, November 1995

biggest investment funds<sup>25</sup>, nothing really changed - everything is owned by the “lucky few”, while common people have nothing. A fundamental misunderstanding of the structure and function of investment funds is obvious.

Is this ethically acceptable? Isn't this a classic example of covetousness and resentment? This system did not turn out to be free of corruption. One of the biggest financial scandals in the Czech Republic involved the director of the agency overseeing the trade of shares “bought” through vouchers, Jaroslav Lizner. He was caught by police accepting a bribe of 8 million Czech crowns from an investor who wanted to buy a dairy that was being privatised. Lizner's role was to give him crucial insider information needed for the right timing of his investment. The case has not been closed yet. The philosophy of Mr. Lizner's attorney is that he was just paid for his role as an advisor in a legal transaction. Mr. Lizner was sentenced to seven years and a Kc 1m (\$38,460) fine. “It never occurred to me that I could be involved in a criminal act,” said Mr. Lizner.

- Direct sales - rewards for the faithful. Direct sales are carried out by the government. It decides to whom to sell and under what conditions according to the results of public tenders or contests. Although the goal of a tender is to choose the best buyer from the point of view of long-term investment and revenues, the reality is often different.

The current Slovak government cancelled the second wave of voucher privatisation (after more than 2 million people bought their voucher books and registered them) and changed its philosophy. People cannot buy shares of privatised companies but state 10-year bonds worth 10,000 Sk, one bond per registered voucher book. What was supposed to be privatisation became a loan citizens provided to their State. The only form of privatisation, taking place in Slovakia is direct sales of state-owned property.

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<sup>25</sup> According to Ms. Jana Matesova of the Czech Management Center, “in more than half of the privatised companies, three or four large institutional investors own the qualified majority of 66.7%:”, quoted in the *World Bank's* Transition Newsletter, May-June 1995

Slovnaft, the biggest Slovak oil refinery (1994 sales of \$1bn, profits of \$91m) was partially privatised through voucher privatisation. The previous government then initiated an international public tender process for privatisation of the remaining part of the company. Several multi-nationals, including AGIP and ÖMV, showed serious interest. When the government of premier Meciar came into office, it cancelled the Slovnaft privatisation and declared the company to be of strategic importance to the national economy, and that the State would have the controlling number of shares. This happened in June 1995. In August 1995, the National Property Fund of the Slovak Republic (NPF) sold 39% of its shares to a company called Slovintegra, Ltd., consisting of Slovnaft's 19 top managers. By doing this NPF owns only 20% (59% before the transaction). The shares were sold for their nominal value (1,000 Sk per share) which makes the whole transaction worth 6.42 billion Sk (\$220 mil.). The first payment the buyer pays, due on the day the contract is signed is 100 million Sk, only 1.6% of the total price. The rest will be paid during the next 20-30 years. By contrast the European Bank for Reconstruction and Development (EBRD) paid \$59m for its 10% stake just a few weeks earlier.

### **A Legal State or a Legal Nihilism?**

“We don't need to idolise that law.”, said Mr. J. Porvaznik, the deputy executive director of the National Property Fund of the Slovak Republic (NPF), when asked about discrepancies between NPF's activities and the law on strategically important companies that cannot be privatised (see the story of Slovnaft above)<sup>26</sup>.

How should we really treat the law? Do we need to “idolise” it, or not? One of the dreams of Eastern European dissidents was “a legal state”. A State in which all citizens, including the political and economic elite would be equal under the same constitution and legal system. A State in which the King will not be the Law, but the Law will be the King. This dream became closer to reality after the changes in 1989. One of the most difficult tasks after the revolution was to build anchors for a democratic legal system. The Czech Republic, Slovakia and Hungary have new constitutions already, final fine tuning is going on in Poland. Legal systems in each country are based upon the doctrine of separation of the legislative, executive and judicial powers. Constitutional Courts, as the ultimate interpreters of the Constitution, were set up in addition.

But what happens if the government, president or members of parliament do not always fully submit to the Constitution? What if they don't “idolise” the Law or, do not obey the decisions of the Constitutional Court?

What happens is a certain degree of “legal nihilism” - a general feeling exists that one does not need to obey the law. Since state-owned companies do not need to pay taxes, and the new owners of privatised companies do not pay for their purchases, why should we?

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<sup>26</sup> Quoted in the SME daily, August 16, 1995

One of the results is, for example, that the National Property Fund of the Czech Republic will lose 1.5 billion crowns due to non-payers. At the end of March 95 unclaimed property receipts totalled 7.55 billion crowns<sup>27</sup>.

The most important consequence is a lack of trust in legal transactions. It is considered to be normal not to pay invoices when they are due. An economy, where only money talks, is being created.

The only way to force a construction company to properly finish its job, without leaving a leaking roof or cracks in the walls, is to withhold a substantial amount of money until the job is done - penalization specified in the contract doesn't work.

The experience of one businessman in Slovakia is that the simplest way to make his customers pay long overdue invoices is to make his lawyer send them a letter of final warning before taking them to court. This works with 80% of customers and business partners. Another 10% must receive a letter from the court, inviting them to the first hearing. The last 10% never pay.

“Petr Cermak, deputy chairman of the Civic Democratic Party (CDP), the strongest political party in the Czech Republic, had accepted the free use of a Mercedes automobile from a local dealership and never paid tax on the “lease”. Worse, the dealership’s owners were wanted for financial fraud in Germany. In early winter they vanished. The CDP quickly paid Mr. Cermak’s back taxes, and Mr. Klaus blamed political foes for creating the scandal. On November 30, 1994 Mr. Klaus’ party, the country’s largest, sponsored a 100,000 koruna-a-plate (\$3,600) fund-raiser. Attending were many representatives of state-owned companies - some of which are so financially strapped they still receive cash injections from the government.”<sup>28</sup>

## **The Sweet Life of Virtual Bankers and Their Debtors**

Judging by the number of banks and their branches, their architecture and furnishings, postcommunist Central Europe must be doing financially very well. The reality under the glittering surface is not so exciting, though. Most banks are undercapitalised. Since the tradition of banking was broken for forty years, there is a shortage of skilled personnel at all levels of management.

It is almost impossible to get a loan for small business. Only companies or persons having substantial property have much chance of getting one. This cautiousness on the part of bankers is understandable. They inherited portfolios of long overdue debts, some of which will never be paid. In the first years after 1989, they themselves made many mistakes by giving out loans without proper guarantees.

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<sup>27</sup> Central European Business Weekly, May 25, 1995

<sup>28</sup> Central European Economic Review, February 1995

That is only half of the picture. Big banks are usually very politicised since they are still, at least partially, in the hands of the State, i.e. government. Loans to governing parties (see box) or big state-owned factories are not unusual. The Polish Minister of Finance had to resign because of accusations of insider trading with shares of Bank Slaski. Hungarian Minister of Finance Lajos Bokros received a near \$100,000 “golden handshake” when he left the state-owned Budapest Bank to take up his government post. Considering that he walked from one state institution into another, from where and from whom did the money come? The Hungarian tax-payer seems a reasonable conclusion - as he himself tacitly acknowledged when, after a public outcry, he donated the cash to charity.<sup>29</sup>

Mr. Antonin Moravec is a Roman Catholic believer. He keeps saying that one can find all of the important answers to life in the Bible. He is married and has four children. He started to do business in 1988, still under communism, as a small vegetable seller. Four years later he won a public contest for privatisation of a state-owned company. This enabled him to take out big loans (tens of millions of crowns) since he had a solid guarantee. At that time he established his bank and named it the Credit and Industrial Bank. As soon as he had a bank he tried to enter into politics: he loaned 20 million crowns to the Czech People’s Party (a traditional Roman Catholic Party), since he “as a Christian believed in its cause”. The Party put him as the Number 1 candidate on the regional Party list for the 1992 general elections.

The work of Moravec’s bank was probably unprecedented in Europe: it had only four clients. Its financial resources for loans - 3 billion crowns (\$115 million) - were borrowed from other banks. By loaning 52 million crowns (\$2 million) to another political party - the Civic Democratic Alliance - he created the biggest political scandal after the Velvet Revolution.

“If I would get another license, I would build the strongest bank in the Czech Republic”, he said in court after being arrested.<sup>30</sup>

To be fair it must be said that the improvement of financial services is remarkable. One reason for that is the growth of competition and motivation by profit. Another is the aggressive operation of foreign banks that set high standards. The staff at cash desks are better trained and often - unbelievable! - want to serve.

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<sup>29</sup> Business Central Europe, December 1995/January 1996.

<sup>30</sup> According to RESPEKT, July 24-30, 1995

### **Ethical Problems - The Small Picture**

We looked at some problems of integrity in big business. Although what goes on in government and banks does affect the life of “common” people, they feel detached from it. Stories of political and financial scandals fill newspapers and strengthen the popular wisdom, gained during the years of totalitarianism: politics is a dirty game.

As if the life of ordinary citizens was any different.

### **In Need of Money and Friends**

All businesspeople feel under financial pressure. Much more so the new entrepreneur in a postcommunist country. It is usually very difficult to get a bank loan and most people, including those starting their businesses, are still, six years after the fall of communism, relatively poor. What makes somebody a good entrepreneur is the ability to use creative ways to *make money*. Ethical limits of creativity are defined by a person’s integrity, by the willingness and ability to apply his/her values and principles in the realm of business. What makes the whole thing extremely difficult is a perceived chasm between the eternal ethical principles one believes in and the complex reality one has to deal with.

Most people would agree that stealing is wrong. Does this principle apply also to paying invoices? Or to be even more specific, to paying them on time?

A book distributor in Slovakia has a cash-flow problem. He would need a short-term loan to solve it. He was not able to get it from a bank, since he did not have property to guarantee it. He got it anyway. How? “I have two ‘banks’.”, he says, “Two large, still state-owned publishing houses, that keep giving me books, although I owe them lots of money for overdue invoices. I understand it as a loan. When I’m out of the cash shortage, I pay them.” The main reason this distributor has cash-flow problems is that his customers - bookshops - do not pay their invoices to him in the due time.

But this is an unusual case, because eventually he does pay the bills. Many people don’t.

The obvious result is a cash economy which, at the end of the day, costs much more. “Chronic payment delays by Slovak wholesalers and retailers are forcing companies to demand unpopular cash-in-advance schemes.”<sup>31</sup>

### **Who Likes Paying Taxes?**

According to Business Central Europe’s analysis, high corporate and social security taxes together with scarce financing are considered to be crucial barriers in the development of the Central European economy<sup>32</sup>. The, so called, “realistic socialism”, typical for the last twenty years of communist history in the region, put high stress on social security. Health care was practically free for anyone (except for the bribes one

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<sup>31</sup> Business Central Europe, April 1995

<sup>32</sup> Business Central Europe, January 1995

had to pay to get proper treatment), the right to have a job was guaranteed by the Constitution. One month of paid holidays, two years of maternity leave and paid sick leave were considered to be great achievements of socialism.

The legacy of this is that Central Europeans expect the government to provide a strong social safety net. That is not so easy in periods of financial scarcity, when most companies are just starting to realise what profitability means. In order not to lose public support, postcommunist governments must set aside a big portion of the state budget to provide for social needs. 22% of GNP in Hungary and 23% of GNP in Poland goes to social expenditures.

High social expenditures mean high taxes. Although most of the population gladly accepts welfare benefits, these same people consider taxes to be a form of legalised stealing by the State.

Whether selling a car or buying construction material, there are two, quite different, prices offered - a normal price if you insist on having an invoice or cash receipt or a special, "discount" price if you are willing to pay cash without any receipt. Everybody avoids paying as much tax as possible. Very few people are concerned with the ethical implications of paying or avoiding/evading taxes.

"Confusing tax requirements and uncertainty over the application of tax laws are slowing the development of corporate investment in Central and Eastern Europe, a new study concludes. The survey was compiled by Deloitte Touche Tohmatsu International, the International Bureau of Fiscal Documentation and the Budapest University of Economic Science. The study finds that many countries in the region have highly punitive systems for failure to properly file tax reports, and that little differentiation is made between serious offences and innocent minor mistakes. In addition, the report finds that tax penalties are generally not negotiable, although they can sometimes be mitigated at the discretion of the tax authorities."<sup>33</sup>

### **Is It Bribing Or Just Paying For Services?**

Corruption can destabilise and even delegitimize the reform process, because it can weaken the political credibility of and trust in the government.<sup>34</sup>

Corruption thrives in rigid systems where monopoly power rests within the government and multiple bottlenecks impede the free flow of goods and services. In the former centrally planned economies, the requirements and irrationalities of these systems turned almost everyone into a lawbreaker.<sup>35</sup>

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<sup>33</sup> Central European Economic Review, Autumn 1994

<sup>34</sup> Michael Bruno, Vice President and Chief Economist of the World Bank in Transition Newsletter, May-June 1995

<sup>35</sup> Susan Rose-Ackerman, Professor at the Law School and the Department of Political Science at Yale University, in Transition Newsletter, May-June 1995)

The question of the difference between bribing and paying for services is not an academic one in the postcommunist world. The amount of money I paid to a plumber for fixing my toilet 5 years ago and the amount I pay him now is not much different. The main difference is that I paid it into his pocket then, and to his private company now. Our plumber was employed in a state-owned construction and maintenance company. It did not make any difference in his salary how many toilets he fixed and what the quality of his work was. There were always more broken toilets than good plumbers. So to make him come to fix yours, or even to make him come immediately, was not an easy thing. He is either your friend - and he comes any time you need him without charging you (but a bottle of wine or a free service from your side would be expected), or you have to pay him some extra money. After the fall of communism our plumber sets up his own private company and in order to stay in business has to charge you market prices for his services (but, as we saw earlier, would be willing to give you a discount if you don't need a receipt).

There are many self-employed plumbers now. Some services are still state-owned and monopolistic though. There is probably no better example than a national telecommunication company. In a situation of a chronic shortage of phone lines, a businessman might be willing to pay an extra price for having a line installed as soon as possible. The money would go straight into the pocket of the bureaucrat who had the power to authorise it. The amount of money depends on the situation in a specific town or district - it is the market price. Is that bribing or not? Or, whatever we call it, is it ethical?

“I am a small entrepreneur and I pay taxes and insurance for my employees. It is difficult, but I keep paying it. But it is really unjust if I learn from newspapers that the payments that were supposed to be paid by the State have not been covered for the last half a year. Who will prosecute the State?”<sup>36</sup>

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<sup>36</sup>Quote from the focus discussion group that organised the survey “Attitudes of Businessmen And Entrepreneurs To Social Politics”, FOCUS, April 1994, Bratislava, Slovakia

## **Talk To Me, I'll Cheat You If I Can**

“I am here for you. Talk to me.”, says the badge stuck on the red aprons of K-Mart shop assistants. It sounds strange in the Czech or Slovak language - it has a certain sexual connotation. When it first appeared it became the subject of jokes and, although most of the K-Mart shoppers understood what it was supposed to mean, the female K-Mart employees were reported getting many impolite offers.

This certainly is an example of problems with cross-cultural communication. But we use it here to illustrate the process, taking place all over Eastern Europe. Businesspeople and their employees are starting to understand they cannot grow or even survive without satisfied customers. Big western corporations, such as K-Mart or Coca Cola, are helping local managers to see what it means practically.

But the tradition of perceiving customers as enemies who are bothering you, dies hard. The quality of products and services is still a weak point in local economies.

“Plzen gasoline supplier, HGA Unesov, is expected to be fined by Czech Commercial Inspection officials for allegedly offering gasoline for sale that was diluted with water.”<sup>37</sup>

## **In A Bus Without A Ticket - “Black Passenger” Mentality**

A Christian lady told me about her strong spiritual experience: One day she was in a local bus with her three year old son on the way to his kindergarten. She, as usual, did not buy a bus ticket. All of the sudden a ticket inspector appeared. The inspector fined her and actually publicly rebuked her. She felt betrayed by God. Even more so the next day when she was caught again. But this time she managed to convince the inspector (a different person) not to fine her. Right after she got off the bus she went to the nearest Church and thanked God for His love and protection.

This is a true story. The lady is not a rebellious teenager, but a mature Christian woman, the mother of three children, who gives lots of her time to charity and helping people in need. She does not see any inconsistency or a lack of integrity in using public transportation without paying for it.

This story illustrates one of the most important characteristics of the situation of ethics in business in the postcommunist Central Europe: a majority of the people actively involved in business do not see a way how to put their value system and their business activity together. Many of them honestly think it is either impossible or unimportant. It is not so much an ethical problem. It is the problem of integrity.

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<sup>37</sup> Central European Business Weekly, February 2, 1995

The effects of compartmentalised life in a modern communist society - with a certain set of standards in family life, a different set of standards in one's workplace and a still completely different set in public life - bears its fruit in the wild world of postcommunist capitalism.

It creates businessmen worried about their cash-flow problems caused by non-paying customers, who, sitting without tickets in trams on the way to their offices do not see any ethical paradox in it.

It creates receivers of welfare benefits who hate to pay taxes, but take for granted that the State (and not themselves) should be responsible for their well-being.

It creates honest people with high moral qualities, who have no problems cheating their bosses, customers, or business partners, because they believe that it is a part of the game.

## ***Is It Getting Better Or Worse?***

### **Where Are We Going And How To Get There?**

#### ***The Bleak Picture:***

Political instability and disrespect for law would lead to a society governed by strong authoritarian personalities. The governing elite would buy support by selling State property cheap. The market economy would be severely limited by power relations. An economic/political, and maybe even military, mafia would practically rule the country.

This would be accompanied by a general decline of the spiritual and ethical awareness of people. Doing business would be considered a dirty game by “good” people. They would withdraw from public life and private business, which would further strengthen the position of cold-blooded pragmatists and corrupt bureaucrats. Bribery and extortion would grow and even the ones who don’t like it would often find themselves in situations not worthy of the effort to stay “clean”.

Institutional religion would be officially promoted. Religious leaders would not be strong enough to resist the alluring promises of the elite, and eventually would become like them.

#### ***The Optimistic Picture:***

Growing numbers of people would realise that life cannot be compartmentalised, that the same values and principles should be applied to whatever they do. Many businesspeople would find out that trust saves money in the end, which would significantly affect the business culture.

Although the crime rate would stay relatively high (remember - it is still lower than the West European average), police and courts would regain the respect of the citizens. Although economic crimes would certainly happen, being in business would not be perceived as a crime in itself. A sense of responsibility would be strengthened.

Grass-roots charities and organisations fostering civic responsibility would grow. “Common people” would not feel so distanced from what goes on in parliament, government or presidential palace. Democracy would not be an empty word but would mean citizens’ participation in all levels of state administration. That would be based on an acknowledged responsibility for public life.

Christianity would not be so detached from real life. Churches would concentrate on their prime responsibility - to be salt and light for the cultures they live in. Christian communities would be places where authentic worship of the triune God can be found. Christians, in whatever position they are, would try to serve, not rule and manipulate others.

Neither of these two pictures is unrealistic. Either may easily become reality.

There are at least two different ways of understanding the relationship between ethics and the economy:

One argues that ethics, as an expression of “higher” culture can be aimed at only in a highly developed economy, especially in profitable companies that “can afford it”. If this would be true, transforming countries of East and Central Europe have a long way to go before they will have enough capital to take ethical principles into consideration. If this is the case I would almost certainly expect the “bleak scenario” mentioned above.

The other way of understanding ethics in business is that business is as much a part of one’s life as family or a Christian community. And that means the same values and principles should be applied in it. To do business “without ethics” is then impossible. I believe this is the right understanding. It gives a sense of hope for the future of Central Europe.

## **Generalisations and Conclusions**

*Ethics*<sup>38</sup> in a general understanding has three dimensions:

1. Ethics as tradition, habits, accepted patterns of behaviour and ways of doing things.
2. Ethics as a prescription of what one *should* do because of a rational insight and conscience.
3. Ethics as reflection of eternal norms and values.

These three dimensions are present in the postcommunist Central European business culture. Central Europe has to find harmony with its complex, and often contradictory traditions, that have been formed by a dramatic history and culture. If we just stay in the 20th century, there have been at least two important issues with great impact on current business ethics: *bureaucracy*, typical for the last years of the Austrian Empire, and “*existing*” *socialism*, as the period before the fall of communism was officially labelled. Austrian bureaucracy taught people to have high respect for clerks, state officers and civil servants by giving them significant influence and executive power. The communist regime, especially during its last stage, became notorious for its abuse of the bureaucratic structure inherited from the Empire. People lost respect for officials and started to be afraid of them.

A thousand years of official Roman Catholic, and later Protestant, Christianity is another important influence shaping the ethical awareness in Central Europe. There is a basic agreement that it is not good to steal, lie or murder. Violence and coercion are not considered to be proper tools for solving the problems of society.

The most important problem of postcommunist business ethics is not that people do not know what is right and good. Most of them not only know that, but are (with varying degree of success) trying to behave accordingly in certain areas of their lives. Good fathers, nice and reliable friends, turn out to be supporters of nationalist political parties, black passengers or notorious non-payers.

Compartmentalisation of life under communism, with a deep chasm between the public and private sphere brought with it the problem of integrity. Many people still consider it quite normal to have a certain set of values and principles at home and a different one in the workplace.

The first problem of postcommunist business ethics is not so much in discovering principles unknown before, but in bringing familiar values from the private into the public sphere. In other words, to pay invoices in the same way one pays at a supermarket for groceries, or to pay for a bus ticket in the same way one pays a taxi driver.

The second problem is to have wisdom and courage to live and do business in the corrupt reality of postcommunist Europe. It is one thing to proclaim absolute ethical principles, it is another thing to try to obey them in an unfriendly world. It is one thing

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<sup>38</sup>Understanding of the existing concepts of ethics was influenced by Arthur Rich: *Wirtschaftsethik*, Guetersloher Verlagshaus Gerd Mohn, Guetersloh 1991

to believe that invoices should be paid when they are due, it is another thing not to be able to pay them because your debtors don't pay you. It is one thing to believe that bribery is wrong, it is another thing to "grease" a doctor when your wife needs complicated surgery.

It needs courage to ask hard questions. It needs wisdom and patience in discernment of right and wrong and then patience and perseverance to behave accordingly in a complicated reality.

## **Appendices**

### **APPENDIX I: Awareness of Ethical Issues Among Polish and Slovak Businesspeople - results of the survey<sup>39</sup>**

The situation in the private sector is very similar in both Slovakia and Poland. The main difference is the longer tradition and higher development of private enterprise (legal, alegal and illegal) in Poland. Private companies of various forms (limited companies, public companies, self-employed business people) and joint ventures with Western companies form an important part of both national economies, creating a significant part of the GNP (58.2% in Slovakia, 55% in Poland). There is a great number of registered private companies and self-employed<sup>40</sup>, although many of them have registered only in order to avoid paying high social security and health insurance premiums by working on a contractual basis instead of having regular employment.

When asked to name the most important problems they are facing, business people listed issues that could be divided into four sets:

- Money - the bad overall financial situation, unjustified taxes for private businesses, problems with getting loans, etc.
- The legal situation - tax laws are not clear (open to contradictory interpretation), rules are not clear, laws are more favourable for state-owned companies than for the private ones, etc.
- Ethical issues - corruption, bribery, envious climate, etc.
- Government - bureaucracy and abuse of power by the state administration, a hostile approach to private business people, creation of better conditions for state-owned companies, etc.

One thing that came out in this open question was the frustration caused by the immoral behaviour of the government and financial institutions. Although the government speaks about support of medium-size and small private businesses, in reality they tend to prefer big state-owned companies. The private businessman is always at a disadvantage since the rules of the game change quite often. Even if they do not change for a long period of time, one can get as many different interpretations as lawyers that interpret them.

#### **What is Business?**

“*Business* is a way to attain an independent life-style with a higher standard of living, with enough money that one may spend and/or invest. It is based on hard and honest work that brings about too much physical and psychic strain, debts and lots of worries and problems.”

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<sup>39</sup> Another report based on the same research programme, but emphasising different aspects of the findings was published as: Murray and Kucia, *Business Ethics: European Review*, 4, April 1995, pp.76-82.

<sup>40</sup>282,999 in Slovakia (June 1993), 1,722,000 in Poland (December 1992).

That would be the definition of the word *business* according to the Slovak respondents. Polish business people would agree with this but stress the money and “big investment” side of the issue. Slovaks tended to mention the negative aspects of doing business (hard work, debts, too much stress, etc.) more than Polish respondents. It seems to reflect the political and economic situation in the respective countries. The relatively high priority of making money in Poland may indicate a generally more successful Polish business community.

Two thirds of Slovak (60%) and Polish (65%) respondents think there are areas of business in which it is not appropriate to be involved without a conflict with basic ethical principles (without specifying what they believe those principles are). The most often quoted areas were drugs, arms and explosives in both countries. While another often listed “business” was prostitution and erotic saloons in Slovakia, in Poland it was smuggling and businesses dangerous to health and the environment (neither of which were even mentioned in Slovakia). It is interesting to note that the responses were in accord with “the official line” presented in media (drug trafficking, arms trade, etc.). As was expected, smuggling had a high rate of response in Poland where it used to be a very common phenomenon and was often highly publicised.

### ***Morality In Business***

Moral issues are generally understood as something that one ought to care about or, at least, to be aware of. Probably because of the strong Roman Catholic tradition in both countries people know basically what behaviour is expected from them. That also means it is not easy to find out what people *really* think. Their responses more often reflect what they think they *should* think.<sup>41</sup>

Understanding this, we can draw several conclusions about the perception of moral issues by the Slovak and Polish business community:

- **Keeping the law and the rules of fair play are understood as the most important ethical issue.**

When asked to specify an area in which ethical principles and standards are being broken most often, 55% of Slovak and 77% of Polish respondents mentioned “doing business within the law”. Another often mentioned issue was fair play in relation to competition, customers, employees and suppliers, especially in Poland. Only a few respondents specified relations with business owners and/or with the local neighbourhood. A very high score (91% in Poland, 45% in Slovakia) for the protection of our natural environment as an area of ethical misconduct seems to reflect the fact that the respondents represented the private sector, which only rarely includes large, environmentally problematic factories.

- **A more simplistic understanding of business ethics in Slovakia, more realistic in Poland.**

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<sup>41</sup>Dr. Radièová of S.P.A.C.E. reported that many business people did not want to respond to the questionnaire about ethics because they were afraid that she was connected with the tax office, or would at least remind the tax office about “un-ethical” companies.

As the previous paragraph suggests and other data supports, the difference between the ethical awareness of Polish and Slovak businessmen is to a large extent the difference between simplistic and realistic attitudes towards the ethics of doing business. While most of the Polish businessmen are aware of the ethical problems connected with relationships with their competitors (76%), customers (74%), employees (62%) and suppliers (56%), their Slovak colleagues have a tendency to pretend everything is all right (ethical problems in relationships with competitors (24%), with customers (34%), with employees (25%) and with suppliers (26%)). Although it could reflect the differences between the ethical dimension in private business in the two countries, it would be more appropriate to support the hypothesis specified in the heading of this paragraph. Namely, that it is a difference between simplicity and realism.

- **Polish business people better understand that it is important for their business to care about ethical issues.**

The answer to the question “*Why should we follow ethical principles and standards?*” could have many different answers. If somebody says the reason for doing things ethically is that it brings more profit in the long run it is considered to be too pragmatic, even un-ethical. Be that as it may, it is a valid reason for many business people in every country, Slovakia and Poland included. It seems, though, that it takes time and experience to come to a similar conclusion.

When asked how often managers take ethical issues into account along with financial and technical ones when making decisions, 93% of the Polish and 57,5% of the Slovak respondents said they do it always or usually. Only 2% of Slovak managers think ethical issues are important, compared to 42% of the Polish ones. When discussing this issue in the focus discussion groups in Poland, participants said that it was not always so and the reason things are changing is that more and more business people are beginning to be aware that ethical conduct in their business helps them to build up their reputation which has a direct consequence on their income.

### *Ethics In Private And State Enterprises*

Ethics in business would seem to be an artificial problem in most of the state-owned companies under the *ancient regime*. Not so much because they were immoral but more so because it was not a real *business* that was going on. Whether it is changing now, remains to be seen. When asked what the word business associates with, only 18% in Poland and as few as 3% in Slovakia responded that it is associated with state-owned enterprise. Private ownership of a company should lead to a stronger desire for a good reputation among customers, suppliers and even competitors. This hypothesis seemed to be supported by the results of the survey.

About 70% of the respondents in Slovakia and 50% in Poland believe there is a difference in the level of consideration of ethical issues in business between state-owned and private companies (with 7% in Slovakia and 27% in Poland who believe there are no differences, and 16.5% and 24%, respectively, who are not sure about it). Only a few respondents who believe that there is a difference between state-owned and private companies think the state-owned ones are better in the area of ethics (about 3% in both countries). Practically all of those who do think the state-owned companies are “more ethical” think that they are not so much profit-oriented, provide better social security and are more aware of the needs of their employees. The most often quoted ethical differences between private and state-owned businesses (in favour of the private ones) were: more responsibility and honest work, better management, more justified rewards, higher appreciation of individual skills, etc.. There was no significant difference between the two countries surveyed. Many Slovak respondents could not avoid complaining that the state-owned companies, especially the bigger ones, have more advantages under more favourable legal conditions. They are not penalised for not paying back their loans and other due payments; they are more likely to get the bank loans; they do not have to struggle for survival with their competition; etc. During the focus discussion groups an interesting observation was mentioned several times: namely, the difference between relationships toward fellow private businessmen versus relationships toward state-owned companies. Fair play is, for example, very highly appreciated even among competing private businesses, but one cannot really trust a state-owned company, one has to fight against it. We can trace the consequences of traditional mistrust of the State and its institutions that developed during the last 40 years.

### *Conclusions*

Although the issues of ethics in business have not yet been studied much, there are a growing number of private business people in Poland and Slovakia aware of the complexities in that area. Comparing the results of the survey in the two countries we can say that the level of the awareness of the ethical dimension of doing business is growing with the development of the private sector of the economy and the growing number of successful businesses. Business people in Slovakia tend to see business ethics more in simple, moralistic terms, while in Poland they are more realistic, even sometimes sceptical. The main motive for the ethical conduct of a business seems to be the experience that it can make the company more effective and profitable.

The government, state-owned banks, tax offices and state-owned companies are perceived as the major examples of immoral behaviour by the business communities in both countries.

The way towards an ethically healthier business environment seems to be starting with small and medium-size private companies creating “islands of integrity”, thus setting an example for the state-owned industrial dinosaurs, while continuing to lobby parliament and taking part in creating better legal systems in the respective countries.

## **APPENDIX II: Basic Demographic and Economic Data for Postcommunist Central European Countries**

### ***The Czech Republic***

#### Population

- The population of the Czech Republic is 10.3 million

#### Economic Activity

- Unemployment rate was 2.8% as of October 1995 (3.1% as of October 1994).
- Average monthly wages were \$315.50 in July 1995 (\$249.80 in July 1994).

#### Economic Indicators

- GDP per capita was \$3,058 in 1994.
- GDP growth was 4.1% in the second quarter of 1995 (1.2% in the second quarter of 1994).
- 65% of GDP was produced by the private sector in 1994.
- One year inflation was 7.6% in October 1995 (10.9% in October 1994).
- Gross foreign debt was \$13.0 billion in May 1995 (\$8.7 billion in May 1994).
- \$2.5 billion of working capital came to the country between 1990 and July 1, 1994.

### ***Hungary***

#### Population

- The population of Hungary was 10.3 million in 1994.

#### Economic Activity

- Unemployment rate was 10.3% in October 1995 (11.1% in October 1994).
- Average monthly wages were \$306.90 in August 1995 (\$298.90 in March 1994).
- 46% of the Hungarian workforce is employed in agriculture.

#### Economic Indicators

- GDP per capita was \$3,805 in 1994.
- GDP growth was 2.0% in 1994 (-0.8% in 1993).
- 55% of GDP was produced by the private sector in 1994.
- One year inflation was 27.8% in September 1995 (19.2% in September 1994).
- Gross foreign debt was \$33.0 billion in June 1995 (\$26.6 billion in June 1994).
- \$8.3 billion of working capital came to the country between 1990 and July 1, 1994.

## *Poland*

### Population

- The population of Poland by the end of 1993 was 38.6 million.
- Out of them 61.8% live in rural areas.
- Natural increase of population was 2.6 per 1,000 people in 1993 (4.1 in 1990).
- About 10% of the population aged 15 years or more have university education, about 30% have primary education.

### Economic Activity

- 60% of the population is economically active.
- Unemployment rate was 15.2% in August 1995 (16.8% in August 1994).
- 55.1% of the economically active population worked in the private sector in 1994 (53.3% in 1993).
- Average monthly wages were \$307.60 as of September 1995 (\$203.40 as of September 1994).

### Economic Indicators

- GDP per capita was \$2,232 in 1993 (\$1,547 in 1990).
- GDP growth was 5.1% in 1994 (3.8% in 1993).
- 55% of GDP was produced by the private sector in 1994.
- 23% of GDP was spent on social expenditures in 1994.
- One year inflation was 22.3% in October 1995 (37.0% in October 1994).
- Gross foreign debt was \$46.3 billion in July 1995 (\$44.1 billion in July 1993).
- \$2.7 billion of working capital came into the country between 1990 and July 1, 1994.

## *Slovakia*

### Population

- The population of Slovakia was 5.32 million at the end of 1993.
- Natural increase of population was 3.9 per 1,000 people in 1993 (4.8 in 1990).
- 85.7% of the population are Slovaks, 10.7% are Hungarians, 1.6% are Gypsies and 1.1% are Czechs.

### Economic Activity

- 59% of the population was economically active in 1993.
- Unemployment rate was 13.2% in September 1995 (14.5% in September 1994).
- 41% of the economically active population worked in private sector in 1993.
- Average monthly wages were \$253.30 in August 1995 (\$206.10 in August 1994).

### Economic Indicators

- GDP per capita was \$2,142 in 1994.
- GDP growth was 6.1% in the first half of 1995 (5.4% in the first half of 1994).
- One year inflation was 6.1% in October 1995 (12.2% in October 1994).
- Gross foreign debt was \$5.0 billion in June 1995 (\$3.6 billion as of June 1994)
- 58.2% of GDP is produced by the private sector.
- \$0.5 billion of working capital came to the country between 1990 and July 1, 1994.