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Social and ethical aspects of entrepreneurship

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S u m m a r y: Entrepreneurship and innovativeness constitute the fundamental premises of economic development and growth. Entrepreneurship as a personal feature of the unit improved in the education process may be effectively manifested under the appropriate legal and economic conditions. These conditions are shaped by the socially established decision system. The entrepreneur-innovator executes his/ her projects within a changing tangible environment, including organisational and legal conditions. To optimise the expected added value which constitutes the objective of his/ her activities, also for the environment, the entrepreneur, while making decisions and undertaking actions, formulates the mechanism of internal protection measures by activating, among others, the appropriate system of reserves in the controlled production complex (or services) and insures it externally in the network of insurance systems. These activities refer also to macrosystems and are aimed at minimisation of risk, maximisation of the expected value, and also limit multi-plane responsibility and shape timeless ethical rules in the human relationships (international), thus affecting the development of the modern civilisation.

1. Introduction

Etymologically, entrepreneurship means a set of features and behaviours mostly typical of entrepreneurs. In the theory of economics, entrepreneurship is understood as a form of work or as the fourth (apart from labour, land and capital) factor of production.

Entrepreneurship refers also to various areas of business life. Its main features include the skill of perceiving needs, perfecting ideas, readiness to undertake risk, the combined effectiveness of cognitive activities and creative use of the acquired knowledge, efficient behaviour in new situations and with new tasks, as well as effective use of the results of the undertaken enterprises.

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The activities of a person in the initial phases of economy practically did not face any limitations (apart from natural ones) resulting from the standards of the law. With time, rituals of behaviour were developed which constituted the basis for assessment of the unit and which defined the type and scope of responsibility when violated. The overwhelming passivity of human activities resulting from limited needs did not result in excess conflict situations which required special regulations. However, as early as in the 18th century BC, the Babylonian ruler, Hammurabi, published the code (regarded as one of the oldest codes in the world, published about 1792–1750 BC) in which he unified and systematised the then applicable rules of common law, mostly in terms of penal and material law. Liability and a system of penalties included in the code were based on the talion principle (from Latin *talis*: the same) which consisted in retaliation equal to the inflicted harm. (This principle is also described in the Old Testament as “eye for eye, tooth for tooth.”) The inflicted damages in property demanded repair or compensation.

The objective of liability and penalties applied was to prevent returning to crime by depriving freedom of the person violating the law, as well as restoring social balance caused with crime. Not observing the principles resulting from the standards of the law in force resulted to ostracism which consisted in alienation of the unit from the family community or expelling from the given place or country.

Along with development of forms of social coexistence in the group, the belief originated and consolidated that actions of one person should not harm another. This thought was best expressed by Hippocrates (ca 460–377 BC), a Greek physician referred to as the father of medicine, who is known to say *primum non nocere* (in Latin, first, do not cause harm). Hippocrates addressed this obligation mostly to people dealing with protection of human life and health. Many modern legal regulations make references to this rule. If this standard was commonly accepted as a sacred principle in human relationships, the problem of responsibility would not need to be analysed in terms of guilt and penalty. If we could remember about and use the second part of the Hippocrates’ vow, which made reference to “supporting the healing powers of nature” in exercising care of a human being, life would follow along less conflictual and more friendly conditions.

2. Social aspects of entrepreneurship

Business decisions and actions are undertaken to achieve specific objectives. They may be formulated in a number of ways, depending on funds and nature of the enterprise. The ultimate objective of business activities is to achieve the benefits which are the driving force for units, companies, thus deciding about the financial affluence of people, and about the wealth of the nation.

Satisfaction with successful business undertakings has determined and will determine the intention of repeating the success. This axiom is logical and socially justi-

fied. It is grounded in many directions of philosophical and economic thought. It is referred to in, among others, the Biblical parable of multiplying talents. Some of the ways and methods which are supposed to help manifest the desired objective called “success” have been controversial or even reprehensible in the past and continue to be perceived in this way.

At the turn of the 17th century, the English social thinker (of Dutch origin), writer, physician and economist, Bernard de Mandeville (1670–1733) based his ethical, social and economic concepts on the controversial thesis according to which private egoism may be profitable for the society. Mandeville is considered to be the author of the term “division of labour”. He prepared the soil for Adam Smith (1723–1790) and his economic *laissez faire* (free action), which constitutes the principle of classic liberalism. Mandeville is also seen as a co-creator of utilitarianism (along with David Hume and Jeremy Bentham), which promoted the primacy of usability over other motives in human actions. Egoism, human passions, according to Mandeville, constitute the source of development of the civilisation and social welfare (1). The legitimacy of this concept has been discussed by economists since the times of Adam Smith. More and more often, its theses are challenged. It is confirmed with more and more often repeating financial and economic crises. The detailed analysis and undertaking of the appropriate counter-measures is still expected.

In reference to the premises of the Mandeville’s concepts, two and a half century later, the eminent American specialist in modern management, Peter F. Drucker, stated that no community can be permanently built on the thesis that private sins may help public benefits (2).

The fact is that “capitalism”, as it was understood in the 19th century, actually referred to the Mandeville’s theses, which largely explains its financial success. This concept, however, irrespective of its controversiality or benefits resulting from it, could not survive to define the principles of modern entrepreneurship. However, it has to be noticed that wherever economy is reborn based on the principles of free play of market forces, in a more or less mature form, it refers to its 19th-century flavours, along with the full range of deficiencies of this period.

In 1918, the American tycoon of railways, William Vanderbilt, stated that his only responsibility in the balance of actions is “winning profit”, claiming directly that “The public be damned. I’m working for the shareholders” (3, p. 81 et seq.).

During this time, similar views could be publicly presented without social and moral responsibility. The financial needs of employees, the degree of their intellectual development, were relatively low, and the possibility of articulating one’s opinion or challenging these principles on their ethical aspects were limited, and even if they were appearing, they were of little effect.

A major change in the views of the social issue in entrepreneurship and the issue of responsibility for the undertaken actions and their consequences brought about both the great economic crisis in the years 1929–1933, and, most of all, the achievements of science and technique in the first half of the 20th century. The conviction

that a company should be managed so that public good becomes its (the company's) private good is a new phenomenon, called the "revolution of the 20th century."

The conviction is slowly appearing in economic circles about the necessity of combining individual benefits with social interest. The feeling of responsibility for the undertaken activities and their consequences is increasing, and the conviction is becoming grounded that every action is related to some consequences which should be foreseen and accounted for (4, p. 27).

This conviction did not come into existence out of the blue. Misunderstood freedom in activities results in devastation of the natural environment, thus threatening also the devastating entities, and paying lockout (reduced) salary for work contradicts the feeling of social standards of justice.

Apart from the detailed discussion of justice (as it constitutes and will constitute embers of discussion for many generations), one should remember that, e.g. Aristotelian differentiation of *exchangeable* justice (commutative) and *distributive* justice became the foundation of many modern economic concepts in the scope of social and economic development.

"Exchangeable" justice is close to liberal concepts. The distribution of goods is then done horizontally between particular entities (e.g. employee—employer, that is labour—salary). The problems arise here, e.g. how to relate labour to salary? What are the conditions and relationships between these values, objective and subjective? What is the salary called "fair"? The determination with good or bad will of the employer or with a set of factors which constitute the functional dependence resulting from work performance, determined with the organisational level, qualifications of employees, technical support for work, customs and a number of external factors.

Similar questions come with formulation of the principle of distributive justice. It assumes allocation of the produced values with the obligatory provision of its part for social purposes (in the form of, among others, taxes). The problems arise here as well, related to the legitimacy, scope and planned use of the collected funds. Various views are stated, yet almost universally the principle is adopted which determines the necessity of providing allowances for general social use. It is expressed with the formula *pay – as – you – earn*. With the assumption of proportional allocation and purposefulness of these allowances, there is a rational conviction that the volume of charges for social objectives should be correlated with the second significant principle: *save – as – you – earn*. This principle constitutes the basic condition of economic growth, where increasing welfare of people should be the tangible objective. It has to be noticed here that representatives of the dogmatic liberalism (including Friedrich von Hayek, a Nobel laureate in economics, 1974) claim that the idea of social justice is disjunctive with the idea of the market economy. Hayek rejects not only the idea of social justice due to criticism of socialism, but also any concepts of distributive justice executed by social and government organisations (5, p. 64).

State institutions are provided from the income generated by the community. The state basically does not produce any tangible values, thus it does not have its own

income, thus it is foreign to the rules of their rational, optimum use. Irrationality in managing income is the cause of domestic and international financial turbulence caused with, among others, not observing the equivalence principles in the balances of incomes and expenses. This problem requires effective domestic and international legal regulations and a strict financial supervision which does not allow accumulation of bank credits which generate crises resulting from the risk of investing in the so-called derivative instruments based on debt securities. This principle applies also to national finances. Continuing lack of balancing of incomes and expenses may lead to bankruptcy threatened with unknown consequences. The debt crisis of the state refers directly or indirectly to the entire community, as it will have to bear its consequences. The recipe for preventing crises is observing the elementary principles of economy balancing incomes with expenditures.

The cyclic nature of crisis phenomena negatively affects all segments of the economic life. They require a detailed analysis and application of effective preventive measures. Crises are usually consequence of human actions, thus the area of human actions has to include some possibilities of their limitation or elimination.

The signalled problem of justice remains correlated with responsibility, and it intuitively assumes constructive peace. This feeling is related to the universally existing *equality* on which building both microelements of matter as well as global financial systems is based. Balance constitutes the basic factor which ensures the required course of both numerous physical processes as well as social life. It affects many of the basic interdependencies in business life, including, e.g., the market law of balancing of supply and demand.

Balance is a perfect state to which rationally managed communities aspire. This state should be perceived in a dynamic sense, i.e. ensuring growth of the programmed objectives, positive for individuals and for the society. The execution of these premises requires creation of such a decision system which would ensure balance of charges and benefits, thus allowing manifestation of correlative rights and obligations, which constitute immanent features of human nature determined with customs (rights) of the environment, which intrinsically assume pursuit of cultural growth of the individual and personal and social welfare. There are no other objectives for modern communities. Perceiving them and efficient execution with decisive factors constitute the necessary item of the internal order and of the international peace, thus contributing to the growth of human entrepreneurship and financial affluence.

Entrepreneurship should be protected against unfavourable events, whose carriers come in the form of internal, endogenous (dependent on people) phenomena as well as exogenous (external) events which constitute a set of institutional, human factors (e.g. irrationally functioning decision centres) and phenomena independent of humans (e.g. meteorological phenomena). The possibility of their existence requires creation of the appropriate system of *security reserves* (the interior of the system, e.g. a company), as well as external *insurance* (in insurance companies). Practical expe-

rience confirms reasonability of these enterprises, as they ensure stabilisation and growth to business entities, minimising their temporary dysfunction.

3. Responsibility in business activities

Entrepreneurship is executed in practice by undertaking business activities aimed at producing goods or providing services. These activities come into interactions with the environment, which is the provider of the necessary production factors, both tangible (raw materials, materials, water) as well as personal (human potential). These enterprises may lead to violation of balance in various areas of activities (the market, financial, ecological aspects, etc.), producing unwanted effects in the environment.

Business activities may give contradictions which are apparent, e.g., between a human being as a producer and a human being as a consumer. Keeping the balance between unlimited human needs and limited resources provided by the nature is determined with the state of development of science, technology and the scope of legal regulations. Winning balance is dependent on the state of cultural and educational development of the community and on the decision optimising skills and actions undertaken by its representatives.

To maintain continuity of development, rationalisation of decisions is necessary which is conducive to execution of the required social and economic processes. The perceptions of the standards which decide about decisions and activities of the entrepreneur make him/ her co-responsible for development of the environment and ensures maintenance of economic and biological balance of the environment.

Nowadays, the activities of entrepreneurs (consortia) are determined by 4 basic areas of responsibility; they define the relationship to:

- the community: deciding about the necessity of observing the principles concerning protection of the natural environment;
- consumers: by securing the rights in the scope of quality of the provided goods and services and elimination of defects, if any;
- employees: executed by, among others, timely salaries specified with a contract, and ensuring safe and properly organised conditions of its execution;
- investors: by participation in income proportionally to the shares.

The details and the scope of the stated areas of responsibility are determined with economic and cultural development of the country.

Fear of responsibility deepens the area of uncertainty with the entrepreneur, creates a multi-level safeguarding system, extends the process of execution of the task and evokes and cultivates a passive attitude to the unclear reality, which in consequence may become a drag for development of entrepreneurship, and, under specific circumstances, may result in discontinuing it.

Responsibility may be analysed in various planes. It may refer to moral, disciplinary, civil and legal, as well as penal liability areas. Each of the above types of responsibility refers to various areas of human activities and the scale and the scope of violation of the principles or standards viewed as obligatory. These areas of responsibility may occur in mutual interaction. The process of the undertaken tasks may result in moral, civil and legal consequences, and, with consciously negative actions, penal consequences as well. The awareness of the scale of responsibility is necessary. It is a limitation of undertaking gambling actions or actions morally and legally reprehensible, which may expose the company (the shareholders) to numerous losses.

A separate area in which the problem of responsibility in the activities of the entrepreneur may arise refers to cooperation with other business entities or institutions. The timely and reliable behaviour in execution of the undertaken obligations, elimination of non-lawful actions, including tax-related, investment tender proceedings, quality of execution of the undertaken tasks, also constitutes a broadly understood area of responsibility of the individual in the realm of business activities.

4. Ethical aspects of entrepreneurship

Ethical issues of entrepreneurship include under a seemingly clear simplicity numerous and complex factors. Ethics in business, as specialists in this field declare, is one of the most significant problems of the present-day world. The literature emphasises the axiom which is expressed as follows: “honesty pays, you do not need cheat to win” (6).

A justified question may be asked about the purpose of discussing the issue of ethics in entrepreneurship if human activities related to business processes (that is manufacturing goods, providing services and their distribution) are regulated with many legal acts which standardise this area of business life. Acceptance of the *non nocere* rule quoted above might be sufficient: not only avoiding harmful actions undertaken by the participants of business processes (passive behaviour: no harm), but also providing help if needed (active behaviour: help). These rules should constitute a sacred ground for behaviour in business.

Codification of ethical standards of behaviour in entrepreneurship may pose doubts related to the scope, details, methods of settlements used in conflictual situations or fears of improper use of standard arrangements for the purposes servient to a specific ideology or doctrine.

Arguments prevail in discussions for reasonability of codifying ethical standards related to business activities. Such codification would become verbalisation of principles of behaviour in the given profession or would be a set of values recognised by it and a catalogue of morally impeccable behaviours. The code of business ethics would constitute supplementation of legal provisions and professional regulations, would shape the feeling of responsibility for social consequences of professional actions,

would promote honest activities, would reveal and negatively qualify non-ethical activities. It has to be stated that many professions have their own codes of professional ethics, e.g. physicians, barristers; also, a set of principles and guidelines *Decency in science* has been prepared for scientific circles and published by the Committee of Ethics in Science at the Presidium of the Polish Academy of Science (7).

The modern leading economic doctrines are based on three different ethical concepts:

- *u t i l i t a r i a n i s m*, the ethical theory originated in the 19th century (called the principle of usability), according to which an act is good when and only when it contributes to the common happiness understood as increase of pleasures and reduction of sufferings in the world (the main representatives of utilitarianism are John Stuart Mill and Jeremy Bentham). The modern utilitarianism is especially active in the area of particular ethics, such as bioethics or ecological ethics. In Poland, an approach similar to utilitarianism was presented by a philosopher and praxeologist, professor Tadeusz Kotarbiński, in his theory of “independent ethics”;
- *l i b e r a l i s m*, expressed in the saying *laissez faire, laissez passer*, that is freedom of earning and trade without interference of the state, with sacredness of the principle of the ownership right. In the social areas, liberalism aims at complete freedom of the individual in the scope of deciding about one’s fate, and it allows only voluntary system of connections of individuals into groups of activities (corporations);
- *r e l a t i v i s m*, according to which logical and cognitive values (true—false), ethical values (good—wrong) and aesthetic values and the related standards and judgments are of relative nature. Relativistic concepts assume subjective nature of both human knowledge and moral standards. In economics, they accept the rule of profit maximisation as a leading axiom in business activities and stipulate separation of “ethics of business” from “general ethics”.

The stated main currents in ethics concepts have advantages and shortcomings, which is confirmed with the ongoing discussions. Their leading motif has come to be the statement that “morality and ethics constitute the heart of practice in business” (8). The reasonability of preparation of a set of principles of a reliable human being dealing with business activities is also emphasised, not because there is a special fashion for code-based disciplining of particular areas of life, but because, as many economists prove, the ethical code of the entrepreneur will constitute a written summary of the basic principles of behaviour which a person undertaking business operations should follow, as he/ she will be an animator of decency in business and a moral protection against attempts of contemptible behaviour. Its violation could result in moral anathema (like, e.g. the so-called black list for debtors) (9).

As a consequence, the code of ethics will contribute to harmonious, agreeable cooperation of people in economy processes, as well as harmonious social coexistence with the natural environment which in itself cannot protect, and a person responsible

for shaping modern civilisation should become its protector, because this civilisation allows discovering fascinating natural resources and unrecognised possibilities of the human intellect.

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Společné i etyczne aspekty przedsiębiorczości

Streszczenie: Przedsiębiorczość oraz innowacyjność stanowią fundamentalne przesłanki wzrostu i rozwoju gospodarczego. Przedsiębiorczość, jako cecha osobowa jednostki doskonałona w procesie edukacyjnym, może być efektywnie realizowana w odpowiednich warunkach prawno-ekonomicznych. Warunki te kształtowane są przez społecznie stanowiony system decyzyjny. Przedsiębiorca innowator realizuje przedsięwzięcia w zmieniającym się otoczeniu materialnym, organizacyjnym i prawnym. Aby oczekiwana wartość dodana stanowiąca cel jego działalności była optymalna, również dla otoczenia, przedsiębiorca, podejmując decyzje i działania, formułuje mechanizm zabezpieczeń wewnętrznych, poprzez uruchomienie między innymi odpowiedniego systemu rezerw w sterowanym zespole wytwórczym (usługowym), a jednocześnie ubezpiecza go zewnętrznie w sieci systemów ubezpieczeniowych. Działania te dotyczą również makroukładów i mają na celu minimalizację ryzyka, maksymalizację oczekiwanych wartości, ponadto ograniczają wielopłaszczyznową odpowiedzialność oraz kształtują ponadczasowe zasady etyczne w stosunkach międzyludzkich (międzynarodowych) i wpływają na rozwój nowoczesnej cywilizacji.

Słowa kluczowe: przedsiębiorczość, optymalizacja decyzji i działań, ryzyko, odpowiedzialność
