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## THE INFLUENCE OF HUMAN RESOURCE MANAGEMENT ON IMPROVEMENT OF BUSINESS ETHICS

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**Key words:** Business ethics, human resource management, ethical workplace, employees.

**Abstract:** In this paper the importance of practice of human resource management as of a significant driver of business ethics in companies has been considered. The basic premise of the paper is the fact that the company's main source of unethical behaviour is situated in its people's activities which further implies that many measures aimed to apply and improve business ethics belong to the domain of human resource management. Based on research results on a sample of 36 enterprises, the paper attempts to answer important questions as: what are the problems regarding business ethics facing human resource experts and to what extent the existing human resource management practices influence the application and improvement of business ethics in Serbian enterprises.

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### Introduction

The main reasons of many problems in the enterprise, as the customer dissatisfaction, high workforce fluctuation, failure to assure and improve quality, failure in employee training, poor innovation, are all related to application of ethics, both individually and in combination. The strategic importance of business ethics has been increased since it creates a company management system which is based on ethical principles enabling the company qualitatively to respond to the requirements of all stakeholders (consumers, employees, shareholders, competitors), as well as of interest groups being connected to the organization indirectly (community and environment, i.e. the entire society). Merely determining the importance of business ethics is not sufficient; a dynamic approach to this issue also requires creating conditions for its application and improvement. Therefore, in this work the human resource management's practice has been analyzed as rather important for application and improvement of business ethics in organizations.

The attention which has been given to the role of human resource management in the improvement of ethics at the workplace is driven by some unacceptable changes in the manner in which organizations manage their people thereby imposing a certain number of serious ethical issues. The importance of research of this role is increased in cases of privatization of enterprises, their restructuring, merging with other enterprises, downscaling, and outsourcing of operations, which have been shown to be an ethically sensitive area of the Serbian organizations.

The modern approach to human resource management offers practical solutions to improve business ethics, as well as efficient methods and techniques, especially for generic and developmental functions (selection, training and development, performance assessment, rewarding). The application of these solutions directly affects the application of business ethics, its further generation and improve.

### Human resource management and business ethics

The nature of human resource management itself, as well as social, humanistic and economic activities is sources of certain ethical requirements. Employment, performance evaluation, rewarding, dismissals, relocations, promotions, development may be and are indeed ethical issues since they imply the individual's honesty, righteousness and dignity.

The application and improvement of business ethics in the enterprise may be significantly affected by the human resource management's generic processes. To employ more honest people is the simplest way to improve the organization in ethical sense. The way of recruiting and selecting people imply the enterprise's practice regarding ethics and fair treatment.

Already in the process of selection itself it is possible to discover individuals who are giving incorrect data and to obtain information regarding the candidates' past (checking). Psychological tests, a detailed inspection of working biography and interviews, all may significantly help to refuse candidates which are unfit to the ethical standards.

Ethical education and training help to educate employees in application of the principles of business ethics, in using various tools to resolve ethical dilemmas, as well as in necessity to establish a qualitative business ethics management system. Instead of teaching ethics, the purpose of training is to raise awareness and sense of business ethics. To communicate and educate the employees in ethical codes and programs, generally the following training programs are being used: directing the newly employed, annual training; for this purpose various manuals, bulletins, video programs and online help are being created.

Another chance to emphasize the importance of ethical principle is performance evaluation. More than any other rhetoric, the rewarding system communicates to employees

regarding the desirable behaviour. If the organization appreciates ethics, than ethical behaviour should be rewarded and consequently, unethical behaviour should be punished. In order to be in the function of improvement of business ethics, the rewarding system should relate ethics and working behaviour. It should provide response to the employee regarding his work, assure the righteousness of reward, as well as the transparency of the rewarding criterions.

Directions of internal employee movements, as promotions, retrogressions, relocations and dismissals also may be efficient tools in improvement of the enterprise's ethical system, provided they are based on clear, understandable, righteous and reasonable criterions.

The creation of fair and correct relationship with the employees has to be part of the human resource management package that leads to higher ethic of the enterprise. Respecting mutual interests between the employee and the employer, based on correct rules of the game prescribed by the government as a social partner and creating balance instead of an exploitive relation, provides with a framework to develop respect and commitment to the business goals, at the same time enabling the achievement of individual goals. Without a fair relationship, mutual respect, self-responsibility, participation and the necessary level of freedom in performing work, there is no business ethics. It is

impossible to improve business ethics based on exploitation, control, coercing and contempt.

### **The role of human resource management in improvement of business ethics in Serbian enterprises**

The scientific valorization of importance of the human resource management practice in application and improvement of business ethics in the enterprise represent the basis to analyze the existing relation between the human resource management system and business ethics in Serbian enterprises. It is our intention to evaluate whether the practice of Serbian enterprises affects their application and improvement of business ethics and to which extent, as well as to identify the issues facing the human resource managers with this regard. With this goal in our mind, using a sample of 36 enterprises, we have attempted to gain an insight into conditions in Serbian organizations. Research units (enterprises) in this research were individuals, members of human resource management, as examinees. Data on the research issue were collected by means of survey. Survey with answers offered was the research instrument. The next table (Table 1) shows our criterions to evaluate the importance of existing human resource management practices in application and improvement of business ethics in Serbian enterprises.

TABLE 1. CRITERIONS

|   | Frequency | Percent |
|---|-----------|---------|
| The rules of desirable ethical behaviour in the enterprise exist in form of document  | 6         | 22%     |
| All employees are familiar with the rules desirable ethical behaviour in the enterprise   | 28        | 87.5%   |
| In the enterprise there are clear rules for violating business ethics   | 11        | 34.4%   |
| The role of human resource management practice in application and improvement of the enterprise's business ethics is considerable | 28        | 87.5%   |
| In the enterprise, the profile of requirements of workplaces is clearly and accurately defined regarding the ethical behaviour    | 5         | 17.6%   |
| None of the employees in the enterprise is employed based on somebody's intervention  | 6         | 22%     |
| When selecting candidates to be employed, attention is focused on verification of data on the candidate                           | 19        | 59.4%   |
| The enterprise frequently organizes courses and trainings on application of business ethics for all employees                     | 6         | 22%     |
| The system of ethical principles is deeply rooted into the system of evaluation of the employees' performance                     | 17        | 53.1%   |
| Standards of evaluation of the employees are clear, understood by all employees and righteous                                     | 11        | 34.4%   |
| In the enterprise, ethical behaviour is particularly emphasized and rewarded  | 14        | 43.8%   |
| None of the employees in the enterprise is promoted based on somebody's intervention  | 8         | 28.2%   |
| Dismissals are based on clear, objective and righteous criterions   | 26        | 87.5%   |

Considering the general ambient and culture in transitional conditions, anyone can clearly see that the implementation of ethical behaviour in Serbian enterprises is a critical issue. As to the influence of human resource management practice on application and improvement of business ethics in Serbian enterprises, we are in the stage of acknowledgement of its importance; unfortunately, it is

only at declarative level. While most of the individuals under surveillance answered that the existing human resource management practice highly affects the application and improvement of the enterprise's business ethics, it is our impression that what were given were the socially desired opinions. Since only 22% of individuals under surveillance think that none of the employees were

employed based on someone's intervention. Also, the percentage of those Serbian enterprises, which accurately and clearly define their profile requirements for workplaces also from the viewpoint of ethical behaviour, and which have frequent employee courses and trainings regarding the application and improvement of business ethic, is rather low. While most of the individuals under surveillance answered that the system of ethical principles is deeply rooted into their performance evaluation system, it is our opinion that this is a rather formal standpoint than realistic, since research results have shown exceptionally low percentage of those enterprises with clear, understandable and righteous evaluation standards, with the ethical behaviour being particularly rewarded and valued.

Research results have also indicated the most frequent ethical issues faced by human resource managers under surveillance: accepting interventions when hiring (30.7%), safety at work (23.5%), safety of data on the employee (26.4%), unequal treatment (25.8%), sex and age based discrimination when hiring and promoting (23.1%), inequality of wages (28.4%), unharmonized application of disciplinary measures (22.6). Human resource managers generally are of opinion that the reason for such behaviour results from the higher management's attitude and behaviour.

Research results have shown that the successful application of business ethics requires professional application of criteria and actions of human resource management, which enable the improvement of business ethics in Serbian enterprises. Simultaneously, research results indicate the necessity of changes in perception of the human resource management's role in application of business ethics in a sense that its generic processes may significantly contribute to the improvement of business ethics in Serbian enterprises. The successful application of business ethics requires redefinition of basic methods and main tools of human resource management. The solution is in the application of more up-to-date methods and techniques. This primarily implies a more intense management (decision-makers) education in this field, as well as the education of individuals who are addressing the employee's issues in the organization professionally.

### Conclusion

Considerations on equal chances, responsibility towards the environment, consumers, employees, as well as company management, all have been provided ethic with high importance. In order to maintain the profitability and reputation of the enterprise, new managerial concepts, techniques and methods have been emerged to stimulate the employees by affecting their beliefs and values, human resource management being rather important among these. As the successful application of business ethics is directly affected by the people, human resource management is the most efficient mechanism of the enterprise's ethics management.

Numerous strategies are failing since the ineffective human resource management, i.e. the neglecting or suppressing moral principles in management, which further

results with ambivalence of the employees. Since the issue of ethics in modern business operation is directly related to the employees, many measures and actions regarding ethics are indeed in domain of human resource management. Therefore, the main purpose of this paper is to explain the role of human resource management in shaping and strengthening business ethics, as well as to indicate the ethical challenges and dilemmas facing the professionals of human resource management and the importance of this function for application and improvement of business ethics in Serbian enterprises.

Research results need to indicate that without successful application of business ethics which further depend on the human resource management's practice, enterprises can not grow and develop. Indeed, the main problem in these enterprises is the lack of commitment to all these.

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