The Rationale and Functions of Establishing Work Ethics: An Institutional Economic Approach

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Summary

The rules that regulate an individual's behavior and bring them into a framework can be grouped under different titles such as law, morality, religion, folkways, or business ethics. These sets of rules and norms differ in scope/level of enforceability through sanctions and the authority to enforce these sanctions. When these sets of rules only regulate one area by itself, we call it a unique area, and one area that overlaps with other rule sets is called a mixed area. The mixed area refers to the field shared by other rule sets, and the unique area is just the area that the specific rule set regulates. In this context, law, morality, religion, folkways, and business ethics are five kinds of rule sets that have different levels of binding and framing effects on individual behaviors. Naturally, there may be many different mixed sub-rule sets that intersect.

The key facts that differentiate rules from one another and cause them to be grouped are additional regulations and the costs required for enforcing the rules. The need for additional regulations directly affects the cost of implementing rules (The term *cost* here includes not only economic costs but also social and psychological ones). For this reason, any sanctions of law, morality, religion, folkways, or business ethics that are applied in the same direction (positive or negative) may provide more effective results.

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Business ethics is a set of principles that define the good, right, or proper way of doing something in the context of a specific action or work process. In this broad definition here, the term *specific* implies that the conception of the good, right or proper in business environments may differ from business to business and from general understanding. As a result, any work environment may impose area-specific rules and norms that differ from the ones of law, morality, and others due to the nature of the work and its job-specific characteristics. For this reason, each field of business ethics is composed of certain principles, rules, or norms that are required to do work in the most appropriate way and in compliance with the general framework of law or morality.

We can define different categories or make certain distinctions within the area of business ethics. Public and private sectors have distinct characteristics. One further distinction may be between the supervisor-officer in the public sector or between the owner-employee in the private sector. Because business ethics is predominantly business-related, the differentiation of labor can also lead to differences in work ethics in both the public and private sectors. Therefore, while one behavior is appropriate in terms of business ethics in the private sector, it may be unethical in the public sector; or while it makes no difference in one field of business life, it may be considered as unethical in other fields. For this reason, we have certain areas of sub-business ethics such as scientific research and publications, health, sports, politics, military and war, education, law, psychology, media and communication, and literature. These subfields have unique area-specific principles of business ethics.

The field of mixed business ethics refers to the rules of business ethics that are also covered by one or more groups of law, morality, religion, and other formal or informal regulatory principles.

In most studies on business ethics, the first issues that come to mind are honesty, equality, fairness, impartiality, responsibility, tolerance, loyalty to the job and organization, and respect for everyone's rights and personal freedom. Although these are extremely important in the area of business ethics, these issues are also regulated by law, morality, folkways, and religion in the same direction (affirmation or negation) and cannot be counted as reasons for establishing business ethics as a separate area of norms or rules. Each area of business ethics requires certain unique norms or rules not covered by other regulatory institutions such as law, ethics, religion, and folkways.

What are the main reasons for establishing a separate set of rules such as unique business ethics aside from general moral and legal regulations? In response to this question, we can say that creating a unique field of business ethics in both the public and private sectors is mainly determined by two factors: discretion and moral dilemmas.

We argue that the main reason for creating a unique area of business ethics rules is the need for discretion. We can state many reasons for this:

The first reason for giving decision-makers discretionary power is that both private - and public-sector employees are not only simple performers of defined tasks, but also decision-makers who wield great power that varies according to their level of management and expertise.

Even if the work processes are well-identified and detailed job and responsibility descriptions are given, granting the employee discretion on issues such as prioritization, using appropriate tools at appropriate times, etc., is expected to reduce the costs of doing the job properly. If costs decrease as expected, the area of discretion expands. On the contrary, when an increase in costs is observed as a result of discretion in these works and transactions, the scope of discretion becomes narrower and procedures start to be determined through strict administrative and legal arrangements.

Secondly, giving an area of discretion to decision-makers contributes to transforming their abilities and talents into more productive usage and public interest, which then results in a generally more efficient use of the labor force. Determining what, how, and when things are to be done using strict rules and durations makes it impossible for decision-makers, especially managers and experts, to reflect their vision and skills onto their work process in both the firm's activities and public services. However, some employees are trained as specialists or managers to make the most proper decisions that can be given within the framework of the general principles of law and morality, using the available means in the most efficient way. Because knowing what is best and most efficient in advance is often not possible, the proper use of discretion is only understood retrospectively at the end of the process or transaction. The breadth of discretion therefore also indicates the magnitude of the additional contribution expected from experts or managers. Without giving them a range of discretionary power, expecting decision-makers to be innovative, increase productivity, or update their work procedures is not rational. Many experts and managers try to determine what is most appropriate in their job through trial and error or pilot studies. In most cases, a lack of discretionary power prevents decision-makers from innovating or developing the most appropriate solutions to their problems by using their full capacity in terms of knowledge, experience, and creativity. Thus, neglecting discretion completely eliminates the rationale in determining public administrators and private managers through merit-based elections or other selective procedures. In order to reflect the differences among individual abilities or talents onto the practice of business processes in a productive manner, a range of discretion should be given in proportion to the individuals' expected skill differences.

Thirdly, discretion more or less improves employees' corporate/organizational commitment and provides them with additional work motivation as well as income expectations from the work they do.

Fourthly, discretion allows determination of the course of work rules and provides a gradual change of rules. We can say that all rules are imposed to meet the needs within the possibilities. However, both the needs and the possibilities to meet them change sharply or gradually over time. The lowness of cost and gradualness of this change are closely related to the appropriateness of the enforcements of discretionary power because the choices made within the scope of the discretion become normal or customary by affirmation over time or result in a new rule within the current legal system to prevent negative consequences.

The second group of reasons for developing a unique set of rules for business ethics is the moral dilemmas that appear in almost all business life. Moral dilemmas occur when the accuracy or appropriateness of behavior cannot be fully determined due to the conflicting evaluations of two or more norms or values, and all arise for very different reasons.

First, although there is relative certainty about the rules for formal regulations and moral values in work life, what is most appropriate in many issues and relationships is not always clear in the business environment. This uncertainty can arise from ignorance and complexity. When both ignorance and complexity coexist, getting past it becomes more difficult. In this context, the right answer to questions such as "Is this alternative the most proper one?" is not an exact "yes" or "no." The more appropriate answer is "it depends on the circumstances or conditions."

Second, there are cases where the advantages and disadvantages of both options cannot be predicted clearly. When you weigh the positive or negative aspects of each of the options ahead, situations exist where you cannot reach a clear conclusion.

Third, moral dilemmas occur due to differentiations among decision-makers' evaluations and the evaluations of those who appointed them as decision-makers. This dilemma becomes greater particularly in principal-agent relationships.

Fourth, decision-makers may also remain in a dilemma if they do not fully adopt the value judgments that dominate the organization in which they work. When they prefer institutional values that they do not fully adopt, they may contradict themselves, and when they attempt to make decisions according to their own value judgments, they may come in conflict with their institutions.

Fifth, decision-makers can also be indifferent between the interests of their institutions and the interest of the general public. Sometimes what is in favor of the organization where the decision-maker works may not be in favor of the public.

Sixth, decisions and choices that are appropriate in public life may differentiate between the short- and long-term in different or even opposite directions. Some consequences of short-term preferences may create a serious dilemma when they are not suitable in the long run for the public or the organization where the decision-maker works. Especially when appointments or elections are held for a certain period, some of the positive or negative consequences of decisions appear outside the term of office. In such cases, deciding in favor of the short-term creates a serious moral dilemma for decision-makers.

In the contemporary world, business life has become more complex and unclear in terms of the principles that show what is good and proper. Discretionary power is necessary for the overwhelming challenges of this newly diversified world. In these newly diversified work environments, some moral dilemmas inevitably arise. In order to help overcome the moral dilemmas in work-life and to help decision-makers use their discretionary power in the best way, creating certain norms or rules as unique business ethics principles that are specific to sub-business areas becomes necessary, aside from general formal regulations such as laws or regulations and informal arrangements such as morality, religion, and folkways.

As a result, rules and norms that are categorized uniquely as business ethics are expected to have many consequences in specific business areas such as regulating mutual expectations among people doing the same job; building trust, and providing solidarity among them easily; providing efficiency in principal-agent relations and thus enabling the development and spread of professionalism in business life; narrowing the area of abuse of expertise over non-experts; providing greater predictability in business and transactions; enabling the distribution of responsibility in the work environment; increasing employee motivation and job satisfaction; minimizing errors caused by incomplete information, misunderstandings, or incorrect instructions; and finally promoting good faith among workers and managers.

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