

SPECIAL ETHICS OR NO ETHICS LINKED TO MISMANAGEMENT?

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Abstract

In our era, of globalization, of postmodernism, we may speak about modern ethic management.

The complex and multilevel system which is the entity, i.e. firm, company, organization, is confronting with different challenges of the endogenous factors and exogenous factors (the natural and business environment).

What we are interested in emphasizing the other modality of ruling an entity: the mismanagement. The mismanagement exists, not only in Romania, but all over the world, because in a competitive and open economy, not all the companies succeed, some of them go into insolvency, fail and disappear. Why? Either because managers' incompetence and inabilities, or intentionally, pursuing unorthodox interests, outside the firm and supported by the organization in question management.

Thus, it come up the natural question: we can talk about "Ethics" in this situation, or we are talking about "a special Ethics", or we are not talking at all about Ethics?

These issues we try to emphasize them and to find an approach to complete or to highlight the importance of Ethics as qualitative and substance element of today entities' activities. These are the types of entities which tend to globalize and to enter in different political and economic spheres of influence, at regional or international levels.

Keywords: *bankruptcy; entity; ethics; immoral behavior; mismanagement.*

JEL Classification: *M11*

I. GENERAL APPROACH

Based on Cambridge Dictionaries Online¹, *the mismanagement means situations in which something, such as a company, or an economy is organized and controlled badly*. That is the opposite of *management*, understood as a science and an art, at the same time (Trifu, Ionescu;2009).

Because our interest in the present analysis is to see if Ethics exist or not, or in special form, regarding the existence of the mismanagement in an entity, organization, in the following, we intend to highlight what happens in this type of entity, in which *the mismanagement* rules.

According to various opinions and ideas, reflected on Internet materials, based on the experiences of firms, organizations, especially from developed countries, we may present the results of such manner of conducting a business, both for the employees and for the firm in the relationships with the business environment:

1. Reduced productivity of labor and production/services→ (2) Decrease in profits→ (3) final step, **business failure**.

Indeed, this issue analyzed and resumed in these pages, consists in two major approaches, of course, with the same final:

1. A good management, in proportion around 60-65 %, BUT unfavorable external factors which occurred and destabilized the firm;

2. Incompetent management, or worse, management willfully destructive, the late aspect in the benefit of someone from the business management, or from the exterior of organization (entity), largely based on **corruption**.

In the theory and practice of management, *the mismanagement*, or bad management, affects the functions of the enterprise, firm, directly the coffers, if (and it is reality, not if), the financial assets (funds) of the firm, organization, are diverted from the purposed goal, or overextended, in comparison with the revenues earned from goods sales, or providing services. Summarizing, the costs are higher than the revenues, the result is represented by the losses and the entire microeconomic system can fail, be in collapse (Deeb, C.).

So-called "importance" of the *mismanagement* in the due course of an entity, organization, firm, should not be neglected, because the way in which the organization is headed, i.e. the science and art of managing activities, depends the existence, functioning and growth of that organization.

¹ Cambridge Dictionaries Online, www.dictionary.cambridge.com—visited 27th of May 2016

We can distinguish **2 (two) modalities, courses of action**, in order to show the existence of the *mismanagement*:

I. *Mistakes, wrong decisions, failures*, of the managers, leaders, with an involuntarily character, due to the unexpected endogenous and/or exogenous factors, risks and events occurred, but which, in a next step can provide the recovery of the firm (we'll see the classical examples of General Motors and Parmalat);

II. *Actions and decisions with willfully negative character*, in the interest of the organization management or external factors and forces, situation which is indeed *the core of the term of mismanagement* (especially with examples of the destruction, by privatization mainly, of the Romanian economy). In this case, we can see the phenomenon of **corruption**, an external factor (impulse), the factor which destroys the scaffold well-functioning of the firm

Regarding the first modality of *mismanagement*, the classical examples, we consider there are Parmalat Company Italy and General Motors U.S.A., both of them succeeding to recover and to return on the specific markets declared insolvency and the impossibility to go further, due to **financial problems**.

Being in this point, allow us to highlight, shortly, the main causes (both for personal bankruptcy and for entities) for the existence of bankruptcy institution:

- a. Family issues, with repercussions on labor efficiency;
- b. Inadequacy of vocational training with job requirements;
- c. Health problems and understanding of messages,

and, above all, the key-problem and main cause, both for individual worker and for the firm (company), leading to insolvency and bankruptcy is²

d. **Financial mismanagement**: over-spending, the poor action collecting all revenues, the credits from different financial or commercial agents higher than the debts of the partners, the failure in taking into account the risks, the discretionary use of money, a not-sustainable budget, these are the features of the *financial mismanagement*, the worst management leading exactly to insolvency and/or bankruptcy.

Parmalat Company from Parma, Italy, for example, in 2011 adopted new and high technologies and modern devices for the labor environment, in order to follow the redevelopment of the company and a new property of self-management could be found inside the factory. It was a step within the period of revival for the great Italian dairy company.

2003 was the fatal year for Parmalat, an unexpected failure, because it represented the failure of the modern regulatory authorities, obliged by the law to protect the investors. The capital market was the frame for the Parmalat's disaster.

But, exactly as in General Motors, it is a "credo" in open competition market, stating that Trans-national companies are "too big to fail" (Chalkidou). At the same, as we know, trans-national companies are very powerful units, acting all over the world, influencing not only the economy of the residency (e.g., Parmalat's bankruptcy represented 1.5 % from the Italian GNP and was proportionally larger than *the combined ratios of the later Enron and WorldCom bankruptcies in the US GNP*-our emphasis), but also several firms, companies which participate to the final goods, or their dispatches, on the market.

General Motors, a giant of the American and world auto industry, also, stroke by mainly external factors from the cars market and from internal failures in budget management, in the last few years emerged from bankruptcy, but the damages (especially for the human resource) were almost stranded. The collapse of General Motors into bankruptcy is considered, in the specialty literature, the latest chapter, until now, in the long story of mismanagement and decline.

At Chrysler plant, the plan of recovery is going ahead, because FIAT Company from Italy takes over the running of the business with 20% of the new company. Another aspect takes into account is represented by the forecasts for the GM's market-share which, based on financial specialists, will look optimistic. Do not forget the State subsidies (through Obama Administration), in order to ensure the stability of this giant, which provides hundreds of thousands jobs, but also important revenues for the U.S.A³.

The economic analysts consider that, if anything (regarding the complex relationships with Japan car companies and similarities with GM's products-e.g. Honda Accord, Nissan Altima), the bankruptcy and subsidies received from the American taxpayers will go down the existent GM'S famous brands.

The second approach and, in fact, the most dangerous and disastrous for any organization, is that of willfully management, i.e. the real mismanagement.

The substance of this kind of action lies in the intention of the owner (s), CEOs, or of foreign large companies, to manage so the entity in order to lead it to destruction, bankruptcy, in the benefit of the parts interested in (money, the predation, the land below that firms, enterprises, "gold" for the real estates agencies and so on...).

As significant examples, facts, for this approach, I chose some from the Romanian economy, examples close to us and from which to draw, yet, lessons as "thus not to be done".

² See as one of the references *5 causes of bankruptcy*, www.bankruptcy-canada.com-visited 28th of May 2016.

³ See electronic article from *The Economist (June 4th, 2009)-The bankruptcy of General Motors. A giant falls*, www.economist.com-visited 1st of June 2016.

A large part of the steel industry was privatized by Mittal Steel Company (now ArcelorMittal) and these capacities (especially from the East of Romania) are almost closed, because this huge company does not need competition within its production capacities. Different other industrial capacities (less textile industry) are, also privatized and brought to bankruptcy for the land below them (in very attractive town zones for residential apartments and offices, or for important chains of retailers). Also, the machinery and other steel or iron devices were sold in order to get good money and profit (Nicolina Iasi is one of these important examples).

We can mention the managers' incapacity to understand that the development of the entity is beneficial both for them (owner included) and for the employees and for the communities. State companies, research institutes, private institutions of higher education, missing only a decade, we may say, are edifying examples for the mismanagement and the destruction of one of the important part of the Romanian economic infrastructure (and this situation is not singular for our country).

As results, we may say that *the mismanagement* can be proved by the outputs, effects, of the organization (firm, company) in discussion. How? Everyone from that entity can observe the course of activity and see how the money is spent and how the relations with other competitors, suppliers and clients run. And this is the "inside mechanism" for warning that something is wrong. BUT, the decisions are made by the powerful and influential people of the general management of the firm (organization), or by the decision makers from the mother-company, or other factors.

II. MISMANAGEMENT AND ETHICS AS RESPONSIBILITY

Postmodern era entailed a change of the modern values in almost all fields of the activity of people. Understood as a crisis of humanism, postmodernism triggered the distrust in the meta-narrations and the secularization of society as the morality turned into ethics and responsibility. Given that the technique and technology developed, new organizations and companies emerged and the emphasis was increasingly put on the behavior of others (being they business partners, or members of management, staff...). Ethics has established itself as Codes of Ethics. These Codes are present in almost all spheres of activity-public or private- in order to guide the employee's behavior in order to obtain *the trust capital*. In our society, a society of globalization and increasing changes in economic and social spheres, the idea of trust capital refers to the fact that is no sufficient monetary capital produced in a shorter time, BUT it is more evident the loyalty of consumers and business partners.

We believe that *the trust capital* involves a number of features assigned to the 4 Es: economy, efficiency, effectiveness, ethics (Trifu, A., Terec-Vlad, L., 2013). In the terms of our society, a responsible management considers this aspect, because competition become increasingly fierce and the struggle for power also tougher. The lack of accountability in the managerial activities may entail negative consequences, which in the medium to long term, could result in entity (organization) destruction (bankruptcy).

A good manager will always takes into account the ethical issues in dealing with business partners and other people and will claim the observance of ethics. The responsibility-as we saw in the managerial sphere- has implications, both internally and externally, as it "mandates" the members to adopt "appropriate" attitudes towards other actors in the sphere of organization field. The internal motivations are related to the benefits the organization (firm, entity) can acquire, the implementation of a socially responsible policy being given by the improvement of financial performances, the reduction of costs, improvement of brand and general image of the organization, the increase of productivity, of the capacity to retain the clients, of sales and above all, the gain of more profit (Maxim, A., 2006). Whereas it is understood that any socially responsible organization (corporation) is interested to conduct a cost-effective activity, we believe that this must be evaluated from a variety of points of view: economically and socially on one hand, on the other from an environmental perspective (Hristea, A.M., 2011).

A Romanian author, for example, Ioana Pop Coșuț points out that ethics is associated with confidence, something with which we also agree, because at the macroeconomic level, ethics affect the whole economic and social system and the immoral behavior distorts the market and leads to an inefficient allocation of resources and a poor or asymmetric communication between corporations, entities, quite in the interior of each organization (Pop Coșuț, I., 2005; respective Terec-Vlad, L., Cucu, M., 2016).). At the microeconomic level, having trust in the partners, involves lowering the assumed risk: on the one hand, there is the trust in the relations with the suppliers and with consumers, on the other hand there is the trust in the relationships with staff, employees (Pop Coșuț, I., 2005).

III. CONCLUSIONS

As we already saw, the mismanagement, or bad management, represents a subjective situation, depending only on the managers, owners, leaders' beliefs, ideas and aspirations linked to the material and monetary advantages for themselves, not for the entity.

Therefore, we think that we cannot speak about Ethics in these cases, rather of lack of it, or of a special thinking (away from the manifestation of Ethics) for their own person and becoming. Ethics mean confidence and if there is no trust (confidence) each other, human components of the entity, corporation, organization, or from one part (including the external relationships), we can not speak about good management, the rule of Ethics anylonger.

Besides Ethics, we consider that a good (smooth) communication with all partners leads to benefits, since it leads to the understanding of the requirements and desires of others. The lack of ethics in business environment can have disastrous consequences on the medium and long term, such as: the loss of the trust and monetary capitals, the mistrust of the employees in their manager (s), the changes in the organizational culture.

The most important role in the organization of today lies on the groups of action and decision, on shareholders and boards of directors, who must act immediately and put under pressure the executive management, when signs occur regarding deviations from the programs and from the moral rules established within the organization. The responsibility for the well-going and functioning must belong to all parties, structures and divisions of the entity, therefore, theoretically, the mismanagement, as subjective mode action, it is unconceivable.

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