

Czech political changes bring business confusion

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PRAGUE, Czech Republic -- The Czech Republic is trying to build an ethical infrastructure for its new market economy. Since 1989, the ethics of communism, which values egalitarianism and authoritarianism, have been replaced with the ethics of capitalism, which values liberty above all.

Unfortunately, the liberty to do good is accompanied by its darker counterpart, the liberty to exploit everyone and everything for one's own selfish desires. Like all former Communist countries, the Czech Republic must struggle with how to control and minimize this "cowboy capitalism."

The swinging of the pendulum from the oppression of Communist authoritarianism to the freedoms of democratic capitalism has led many Czech business people to conclude that there are no limits on human conduct.

In a recent survey of Czech managers, many respondents considered it acceptable behavior to hide negative financial facts from stockowners, to sit on the board of a firm that owes you money, and to share confidential information about two competitors with each other.

In general, the term "conflict of interest" remains a foreign concept. In a public survey, a large percentage of the Czech population was convinced that the ethical problems being experienced during the nation's transition to capitalism will not wither away with economic growth. Instead, some government action is necessary.

The Czechs are trying to accomplish in weeks and months what should take decades. As Adam Smith noted several centuries ago, the success of capitalism rests upon the shoulders of a just legal system, otherwise society will experience a moral collapse and a war of all against all in the market place wherein only the most unethical survive.

According to a briefing for business ethics professors visiting the Czech Republic given by Czech business leaders, scholars and government officials, the following are the major issues Czech officials are struggling with:

■ **Legal system issues:** Laws regarding privatization change several times a year to keep up with evolving behaviors. Government officials are trying to develop a legal framework for commercial behavior so that laws encourage ethical behavior and discourage unethical behavior.

Unfortunately, the judicial system is collapsing in its effort to meet the demands of 250,000 new legal cases. Currently, there is a major gap between what the law states and how it is applied. Many laws are simply not enforced. Business people realize this and some are willing to violate the law because they believe they will never be prosecuted.

■ **Banking issues:** The most common ethical violation involves bank employees telling one customer confidential information about another, usually the first customer's business competitor.

Other banking issues include money laundering, false representation of services, fraud, insider trading of stock based on confidential bank records of companies, leaking information about future bank policy changes to preferred customers in exchange for bribes, sharing confidential information with the public or government officials, preferential loans either to family members or via bribes, and offering excessive high interests on deposits or excessively low interests on loans to run other banks but of business.

To build trust in the new banking system,

a code of ethics was developed in 1993 that mostly copied the bank codes found in the United States, Britain and other European countries.

The code aims at giving more demanding criteria than existing laws, which are viewed as inadequate, and covering a broad range of issues. A committee of upper managers was formed and given moral authority to uphold the code. Two years later, its success has been minimal.

■ **Social control issues:** Czech business leaders are adopting a variety of nongovernmental social control mechanisms that encourage ethical behaviors. These include memberships to a "rotary" and the development of associations that only accept managers of high integrity.

■ **Civil service issues:** The government has legislated a Screening Law to prevent former Communist state police from obtaining high positions in the civil service. These former agents were accustomed to accepting bribes for services yet to be rendered.

■ **Foreigner Issues:** Czech citizens have always had a fondness for that which is foreign. Under communism, many Czechs considered themselves living in a backward country that was falling behind their Western European counterparts.

So when privatization occurred, they embraced foreigners whom they believed had much greater business intelligence. They were then shocked to be economically exploited by foreigners

who came to steal money from Czech citizens and to financially rape customers and their Czech business partners

Czechs now have a healthy skepticism toward blindly following the direction of foreigners. From their perspective, there are crooks abroad who are willing to bankrupt Czech firms.

There are other issues which the Czech Republic is struggling with that can be found in many other countries. These include:

■ **What is the appropriate financial ratio between the salaries of management and laborers, the 4-to-1 ratio found in Norway or the 120-to-1 ratio found in the United States? Under communism, the ratio was 1-to-1.**

■ **How should you balance the salaries of Czech employees with those you hire from abroad? Foreign workers demand much higher salaries, which only makes the Czechs envious and uncooperative.**

■ **How should you balance the salaries of Czech employees with those of expert consultants demanding very high incomes due to labor market demands?**

■ **How do you clearly distinguish between a bribe and a commission? A few people, particularly government officials and the civil service, still control some key resources and will work more thoroughly and quickly in your interests if motivated with some financial remuneration.**

■ **What should be done with bad debts inherited from the communist system?**

■ **How should companies collect the bad debts of customers? There are 'consultants' who obtain very good results by getting violent on your behalf.**