Ethics and Entrepreneurship, An Oxymoron?:
A Transition to a Free Market Economy in Eastern Europe

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Experience in emerging economies has shown that the development of the private sector of the economy is a vital part of the restructuring needed to move from a command economy to a social market economy. As jobs disappear in the traditional state-owned sector, the key dynamic force in market economies, and more generally in economic development, will be entrepreneurs. Throughout the world - in Western Europe and the United States as well as in Eastern Europe and other developing economies - a large percentage of the new jobs are created in new enterprises and in rapidly expanding firms.

If it is so evident that the creation of small and medium sized companies is vital to the creation of jobs and wealth in developing countries, why is it so difficult to stimulate private enterprise in areas like Eastern Europe? One of the reasons frequently given is the poor image of entrepreneurs in many of these countries. They are too often seen as gangsters, villains, and thieves rather than heroes and champions of economic development. So there is an important link between ethics and entrepreneurship.

In this paper I would like to explain first what entrepreneurship is and refute some of the myths which have grown up about entrepreneurs. The second part of this paper discusses what may be a more controversial proposition: that business ethics is important to entrepreneurial success.

WHAT IS ENTREPRENEURSHIP?

The entrepreneur has been variously defined as a risk taker, manager, innovator, capitalist, inventor, implementer, speculator, and thief. This latter definition of "thief" reflects the negative image of entrepreneurs in Eastern and Central Europe. A recent article in a newspaper in Moscow described how "four thieves stole a million rubles from society." In reality there were four computer programmers who successfully launched a small software activity which had sales of the equivalent of $50,000 during its first nine months. They would be considered successful entrepreneurs in most countries.

A more objective analysis of entrepreneurship reveals that it can best be characterized as a multi-faceted process which includes a vision, a high level of personal commitment and drive, innovation, change, and the creation and building of something of significant value over time. It also involves taking both personal as well as financial risks, building and motivating a team of people, and mobilizing human, material, and financial resources.

One of these facets, innovation, deserves more explanation. In highly developed economies, entrepreneurship often involves technological innovation - either applying existing and known technology to new markets or the development of new technology. In contrast, in developing economies there is little technological innovation involved. The innovation and opportunity for changing the ways things are done tend to be broader in scope, and more often involve improvising substitutes for non-available skills and materials, adapting production techniques and the way the work is organized, and obtaining adequate management skills. In developing countries, introducing elementary management practices can be a major source of innovation.

It is important to emphasize that creating a new enterprise involves significant risk. In studying a new venture, at least five major risks must be evaluated. These are, first, the product/market risk: Is it the right product or service at the right price for an identifiable group of customers? Second, the managerial risk: Does the entrepreneur/team possess the required skills and experience? Third, the technical risk: Can the product be manufactured, or can the service be provided? Fourth, the competitive risk: What is the chance that the venture can achieve either product differentiation or cost leadership and sustain it over time?

Finally, the financial risk: Might the venture run out of money, and if so, can additional money be raised? However, even after a positive evaluation of these risks, the failure rate is high - some estimate that more than 50% of new ventures fail within five years.

It is obvious from this discussion of the importance and nature of the risks involved that one of the important tasks for an entrepreneur is to transfer some of the risk to others. You have probably noticed, as I have, that successful entrepreneurs are extremely clever in getting others to share in their risk.

Another characteristic of entrepreneurship is that it is a market-driven process. It must be anchored in a product or a service that adds value for its customers and end users. This dimension constitutes one of the major challenges in emerging economies which have been centrally planned with little competition, and where meeting quotas or other goals of the system was more important than satisfying the end user.

The Process of Entrepreneurship

The process of entrepreneurship can be divided into several distinct phases beginning with the idea, or the seed of the venture. This is followed by some preliminary consultations and fact gathering to determine the opportunity for success. Some consider this phase to be an idea which has been well massaged. Then a more detailed definition and evaluation of the feasibility of the venture is undertaken. The fourth phase is the start-up or launching of the new enterprise, which can cover a period of 6 months or 2 years depending on the venture. The final phase is the managing of the ongoing business enterprise. This process is explained in considerable detail in a recent publication of the European Bahá'í Business Forum, Entrepreneurship, An Introduction.

Who are these Entrepreneurs?

A number of studies have been carried out to determine what characterizes successful entrepreneurs. One conclusion of these studies is that successful entrepreneurs do not fit any single profile. Some are young, others are retired. Some are creative geniuses, others are men or women of action.

But there are some common characteristics. They work hard, they are driven by an intense personal commitment to the success of the venture. They are very achievement oriented. They are able to live and cope with uncertainty and disappointments. They tend to be optimists. They seek excellence and strive to win. They accept and learn from failures. They are pragmatic and action oriented, not perfectionists. They value freedom to decide and to act and tend to be intolerant of authority. And they believe strongly in themselves - they are self confident.

The following seven myths about entrepreneurs are the most prevalent:

- Myth #1: All entrepreneurs tend to be alike. Experience shows that the majority of founders defy generalities about their age, experience, level of education and the like. Some experts say that in some poor countries women are the most successful entrepreneurs.

- Myth # 2: Entrepreneurs are driven by greed, power and lust for money. What really drives most entrepreneurs is a deep personal need for achievement. They do not seem to be galvanized by the sole prospect of profit. We have found that high achievers work hard anyway provided there is an opportunity to achieve something worthwhile and of value.
- Myth # 3: Entrepreneurs are born to be entrepreneurs. On the contrary, the making of an entrepreneur occurs by accumulating relevant skills, know-how, experience, and contacts over a period of years and includes in particular self-development.
- Myth # 4: The most important thing is to have a good idea. Experience has shown that only one out of a hundred ideas results in a new business, and only five out of ten new businesses survive more than five years. Experienced investors generally prefer a good entrepreneur with a mediocre idea to a new or inexperienced entrepreneur with a good idea.
- Myth # 5: Obtaining financing for a new venture is the most difficult step: For reasonable projects, supported by a competent entrepreneur, raising finances can be one of the least difficult obstacles to overcome. This may be less true, however, in many Eastern European countries due to the inadequacy of the banking system. Furthermore, financing remains a major problem for women entrepreneurs.
- Myth # 6: Entrepreneurs are reckless risk takers: Our experience is that entrepreneurs go out of their way to avoid high-risk situations and they are very clever in getting others to assume a lot of the risk.
- Myth #7: Entrepreneurs sacrifice morals for profits: Honesty and integrity are very important attributes for entrepreneurs because they depend heavily on the trust of their customers, suppliers, partners and bankers.

Obstacles to New Enterprise Creation

Entrepreneurs in Eastern and Central Europe face many of the same problems and challenges as entrepreneurs in the West. They must separate real opportunities from unrealistic ideas; they too must put together the financial, human and technical resources needed to get the job done; they must find ways to share many of the risks with others such as banks, foreign partners, and suppliers.

But in addition to these problems, entrepreneurs in emerging economies must also overcome the handicaps of inadequate infrastructures and weak support systems. This is even more important when the entrepreneur is attempting to attract foreign partners. In addition, financial resources, trained personnel, and technology are scarce. Furthermore the illiquidity of the whole system is a constant threat since customers tend to be short of cash, therefore do not pay their bills on time. This in turn creates frequent liquidity crises and not infrequently bankruptcy.

For the above reasons, as well as the rampant inflation in many Eastern European countries, many new enterprises are in trading and retail shops, where the investment requirements are lower, and profits are higher and more immediate. But the real challenge is to encourage the creation of new manufacturing and service enterprises.

Let us pursue some of these obstacles and problems further. My observations are drawn to a large extent from recent experience in several Eastern European countries.

1. Bureaucracy: There are few ways to discourage entrepreneurs more effectively than massive and detailed regulation, long delays in obtaining permits, and complex networks of decision makers. Entrepreneurs need to work fast, deliver products on time, and decide quickly on priorities. Their style conflicts with the slowness of bureaucracy and the complexity of decision making in command economies. Foreign investors are even less tolerant and patient because they usually

have alternative opportunities to invest in other countries where these unproductive delays are not present and the investment climate and outlook are at least as favorable.

2. Inadequate financial markets and institutions: Banks provide many services that are important to entrepreneurs: lending, mortgage financing, guarantees, transfers, foreign exchange, and letters of credit, to name a few. Without these services available locally, it is difficult for entrepreneurs to operate, particularly in carrying out their transactions abroad. Difficulties in obtaining export financing and guarantees can cause delays and additional costs in importing raw materials, thus making a firm uncompetitive.
3. Inadequate infrastructure: Lack of reliable communications, transportation, and energy represent other serious obstacles. One of the first things that causes a potential foreign investor to turn away is the lack of reliable telephone and fax services.
4. Technology: Lack of access to modern technology is certainly one of the major obstacles to the creation of new enterprises, and particularly those destined for export.
5. Culture: One of the most important barriers to entrepreneurship is the cultural barrier. After 40 years of a centrally planned economy, it is not surprising that people tend to be reactive and cautious rather than innovative, assertive and risk taking. (see Table below)
6. In a remarkable presentation to a recent Conference on "Moral and Ethical Principles in a Social Market Economy", on the subject of "Bulgarian National Psychology", one speaker painted a rather bleak future near-term for entrepreneurship in Bulgaria because of this cultural dimension. He lamented that 40 years of totalitarianism changed the strong spirit and work ethic of the Bulgarians into a country of unenterprising, submissive, Party-centered individuals who learned to refrain from making decisions and to avoid responsibility. Totalitarianism, he went on to point out, led to the loss of the role and meaning of words. Spoken agreements and written contracts became meaningless because they were not upheld or honored. As a result, he concluded that "one cannot expect a boom in the entrepreneurial spirit among Bulgarians." Jacques Attali, former President of the European Bank for Reconstruction and Development, shared this concern about the transition to a market economy throughout Eastern and Central Europe when he said "If words are robbed of meaning, if the lie is the main unit of currency, there can be no exchange between humans, no contracts, and thus no basis for a maintenance of markets and democracy."
7. Business Ethics: In one recent survey in the Czech Republic, the absence of business ethics, or at least the public perception of the low level of ethics in business, was mentioned very frequently as the main barrier to people becoming an entrepreneur. Furthermore, "disrespect for both the general welfare and the benefit of society as a whole is a further negative feature which can seriously impair the creation of new enterprises." This important issue of whether entrepreneurs are, or should be, ethical is explored further in a later section.

CULTURE, VALUES AND PERSONAL SKILLS DIFFER

- Free Enterprise
- Command Economy
- pro active
- reactive
- innovative, risk taker
- cautious
- assumes responsibility
- avoids responsibility
- collaborates
- individualist
- trusts others
- suspicious

- delegates
- centralizes
- right to fail
- failure a disgrace

What Can Government Do ?

Experience in other countries both in the West and in the East has shown that the development of entrepreneurship involves a real partnership between government and business. Perhaps we should add two other important partners: foreign investors and the international institutions that are providing so much assistance at this time. Success requires on the one hand wisdom on the part of public policy makers and on the other hand the energy of entrepreneurs.

What must governments do to encourage the creation of new enterprises? First, of course, this goal must be publicly recognized to be a clear national priority and favorable government policies must be promulgated. In country after country it has been shown that cultural and attitudinal handicaps are overcome once government policy is clear and explicit. Three things that government can do stand out:

1. Get the macro-economicenvironment right;
2. Remove administrative and regulatory barriers;

Provide necessary infrastructure and support systems.

- Creating a Stable Macro-economic Environment: A well known economist from Harvard, Jeffrey Sacks, stated that the single most important policy for promoting entrepreneurship is getting the macroeconomic structure and environment right. Of overriding importance to entrepreneurs and to potential foreign investors are the following:

1. An explicit government policy favorable to private initiative.
2. A clear legal framework covering property rights, transfer of ownership, and competition.
3. Favorable conditions for international trade, investment, and cooperation.
4. Reasonable and simple taxes.
5. Repatriation of capital and profits.
6. Control of inflation.
7. Economic growth.
8. Convertible currency.

- Removing barriers: Cumbersome bureaucratic procedures and detailed restrictions on what entrepreneurs can and cannot do only add to the many problems which creators of new enterprises face. Some very simple analyses could be made of how long it takes and how many people are involved to obtain various permit:

1. To create a company
2. To buy property
3. To open an office
4. To build a plant
5. To import raw materials
6. To export finished products
7. To borrow money
8. To hire and fire personnel.

These analyses would certainly bring to light some of the problems in attracting entrepreneurs and foreign investors and indicate the actions needed to remove these barriers.

- Providing Business Infrastructure: In addition to removing such barriers, entrepreneurs and foreign investors expect a minimum infrastructure to be able to do business efficiently. Reliable transportation, energy, and communications are a minimum. But over and above these, some governments are increasing direct assistance to promote the creation of new enterprises. This direct support often takes the form of:

1. Well conceived and realistic strategies and action plans for attracting foreign investment
2. Banking and financial services (short and long term credits, guarantee funds, equity and seed capital, leasing ..)
3. Technical training
4. Management and staff training (accounting, languages, marketing, ethics)
5. Professional services (legal, accounting, consulting)
6. Export development assistance
7. Business development centers
8. Industrial parks
9. Incubators

Some Lessons of Experience

What can be learned from the enterprise promotion experience in developing countries of the world? While controversial, I would like to conclude this first part with several observations:

1. Individual enterprise is a critically important driving force for economic and social development in developing countries as well as for developed economies.
2. Entrepreneurs know better than governments or foreign "experts" what is good for them and the economy. Effective support programs therefore focus on providing access to resources not on promoting particular forms of enterprises.
3. It is both necessary and possible for enterprise assistance programs that provide genuinely useful services eventually to cover their costs.
4. Women are creating businesses twice as fast as men in some countries. Women are the most numerous and the most serious entrepreneurs in many poor countries, even though their businesses are usually very small. They repay loans more reliably than men, and they use their earnings for the benefit of their families and for reinvestment.
5. "Minimalist" programs and micro-credit schemes which provide small credits at reasonable interest rates to enable poor people to start their own businesses are usually successful. Training courses, consulting services, industrial estates and other similar services do not seem to provide the same lasting benefits.
6. A final observation is that as an entrepreneur, the longer you survive, the better the chances of succeeding. Experience is very important. It is like troops in battle - most deaths occur among newly arrived troops. Experienced veterans know better how to survive.

THE IMPORTANCE OF BUSINESS ETHICS TO ENTREPRENEURIAL SUCCESS

Having discussed entrepreneurship, we turn now to business ethics: What does it mean? What does it have to do with entrepreneurship? Do good ethics make good business sense for entrepreneurs?

There is a very widespread feeling that this is not the time to talk about ethics in countries in Eastern and Central Europe now experiencing what some economists have called "cowboy" and "Mafia" capitalism. "Come back in five years" is frequently heard in answer to queries about the state of business ethics. Yet, as we mentioned earlier, the public perception of a

low level of ethics in business is a major barrier to entrepreneurship. How can entrepreneurs become models as long as the public equates profits with theft? Is this not the moment of greatest need to bring the ethical dimension of entrepreneurship to the attention of the public as well as of the business community? Let us first discuss what is meant by business ethics.

Definition of Business Ethics

Ethics, whether applied to business, law, medicine, or any other professional practice, is derived from a set of universal values. Some 3,000 years ago Zarathustra summed up ethics pretty well when he called it "purity of intention, wisdom in utterance, and goodly deeds." So ethics is not a recent fad. Most writers on the subject agree on several universal values which underlie ethics and which are found in the writings of the world's great religious traditions. Among these virtues or values we find:

- honesty and truthfulness
- trustworthiness
- fairness
- respect for others
- service
- justice
- moderation
- wisdom and prudence

But business ethics is not simply a philosophical concept - it is concerned with decisions and what to do. It is obviously concerned with right and wrong. But this is usually relatively easy to sort out. We know it is wrong to steal or to kill. More importantly, business ethics seeks answers to real life problems which often involve conflicts of "right versus right" and clashes of moral principles. For example, if an entrepreneur is confronted with a choice between bribing officials to obtain government contracts or laying off workers, what should he do? He probably realizes that paying bribes is wrong, but is laying off workers and depriving them of their livelihood less wrong or less moral than paying bribes? One author defines business ethics as "the study of how personal moral norms apply to the activities and goals of commercial enterprise. It is not a separate moral standard, but the study of how the business context poses its own unique problems for the moral person who acts as an agent of this system."She goes on to point out that business ethics generally falls into three basic areas of managerial decision making: choices about the law, choices about economic and social issues that are beyond the law's domain, and choices about the preeminence of one's own self-interest. Since there are often no right or wrong decisions, business ethics reflects a state of consciousness about moral and human values and business obligations which permits sound reasoning on major decisions.

Stages of Ethical Consciousness

There are clearly wide variations in ethical standards between cultures and countries and probably even greater differences among entrepreneurs in a given country. One way of analyzing these variations is to define different levels or stages of ethical consciousness in a business. This approach parallels that of Lawrence Kohlberg who developed the leading theory of moral development. One of Kohlberg's findings was that the moral development occurs in a specific sequence of stages regardless of culture. But to place this in a business context, the levels might be described as follows:

- **Stage 1:** "Might Makes Right". Decisions and actions in this first and lowest stage of ethical consciousness are based on very simple physical and material power. It is a very Darwinian existence in which "might makes right", "survival of the fittest", and the "law of the jungle" prevail. Activities of the Mafia such as extortion and price fixing enforced by physical threats could be considered to be Stage 1 behaviour.
- **Stage 2:** "Anything Goes". Actions in this stage are still very self-centered and materialistic. Entrepreneurs in this stage seek to maximize personal financial gain very short term by doing anything that produces a profit as long as they do not get caught. Producing, distributing, and selling drugs or pornography would fall in this level, as would practices such as false representation of products, bribes to government officials, stealing, not paying taxes, false declarations for customs, and failure to respect written or oral commitments. In this stage actions are taken with little or no consideration for other people or parties. This stage is characterized by such expressions as "let's make a deal", "nice guys finish last", "we have to pay bribes", and "anything goes as long as one does not get caught", and 'we have to lie and cheat for the next five year, and then we will be honest.'
- **Stage 3:** "Maximize profits short-term". This stage involves greater conformity to socially and generally accepted business practices. Entrepreneurs seek to maximize profits within the constraints of the law. "Whatever is good business is good ethics", "follow the leading crowd", and "that's the way business is done here" best describes the reasoning of entrepreneurs and business people operating on this level. Short-term growth in sales and profits are the primary performance measures. They are reassured by some leading economists such as Milton Friedman who say that the basic responsibility of business to society is to make profits for themselves and their stockholders. The father of capitalism, Adam Smith, described the free enterprise system in The Wealth of Nations, published in 1776. He argued that the interests of society are best served by permitting each person to follow his or her own self-interest in economic life. We sometimes forget though that Adam Smith was himself a priest and that moral behaviour and the rule of law were already accepted bases for society when he wrote about capitalism.
- **Stage 4:** "Maximize profits - long term". A significantly higher level of ethical consciousness is the school of thought that "sound ethics is good business in the long run." Entrepreneurs look to rules, laws and codes for guidance. Companies like Shell, whose Managing Director in Bulgaria spoke last year describing why his company in Bulgaria (and in other countries) refused to pay bribes to contractors to complete new stations on time, exemplify this level of behaviour. While the interests of shareholders remains uppermost in the minds of executives, there is equal if not greater concern for doing what is right and what will prove most profitable over the longer term even if other actions might produce greater short-term profits. An increasing number of companies in Western Europe and the United States have codes of ethics which define what they consider to be ethical behavior. Some companies go so far as to appoint an 'ethics officer', provide training courses on the ethics code, and build respect of this code into the annual performance evaluations.
- **Stage 5:** "The Stakeholder Concept". Reasoning in this stage goes beyond the notion that the purpose of business is essentially to make profits. Companies openly profess to have a social as well as economic mission. Their behavior is influenced by certain universal principles such as justice as well as by legal codes. Profit sharing, community service projects, and philanthropy are examples. There is increasing recognition in the West of the interdependence of various "stakeholders" in the business. By stakeholder is meant any group or individual who can affect or is affected by the achievement of the organization's objectives. Examples of stakeholder groups beyond stockholders and owners include: employees, customers, suppliers, banks and other creditors, partners whether local or foreign, governments, and communities in which the company

operates. A large number of academics have been writing about this "stakeholder concept" for many years, and increasing attention is being given to it by progressive business leaders. Mr. Heini Lippuner, Chairman of the Executive Committee of Ciba Geigy, quotes his company's "Vision 2000 Statement" in saying that "By striking a balance between our economic, social, and environmental responsibilities, we want to ensure the prosperity of our enterprise beyond the year 2000." The driving assumption of this concept is service to all stakeholders in the business and balancing their respective interests to seek the greatest good for all. The focus is on building and maintaining mutually enabling relationships, which in turn create value for others and thus justify profit. The measures of success are different as well: quality, service, customer satisfaction, community health, team welfare, employee self-realization: these goals are considered important as well as financial results. Some companies have gone so far as to publish regular annual social reports similar to their annual financial reports.

- **Stage 6:** "Corporate Citizenship". A yet higher level of ethical consciousness involves redefining the mission of business in society. The World Business Academy and Business for Social Responsibility, both associations and networks of business leaders, are among the principal proponents of this higher level of ethical consciousness. This "social responsibility" school of thought, present in Stage 5 but to a lesser degree, maintains that business has a major responsibility to contribute to the necessary transformation of what they consider to be a very unhealthy society today. Their belief is based on the premise that a business can be healthy only if society around it is healthy and that no other institution in society, including governments and churches, has the resources or the credibility to bring about this transformation. Entrepreneurs operating on this level would seek to achieve certain societal objectives such as community health, job creation, employing handicapped people, and self realization of employees as well as financial success. The growing importance of networks of "social venture entrepreneurs" illustrates how socially desirable objectives can motivate as well as profits.

Developing Ethical Consciousness

To digress for a moment, studies and theories about the cognitive and moral development of individuals and in particular in children, may help us understand the process of ethical development of entrepreneurs in Eastern Europe. Like Kohlberg, the well known Swiss psychologist Piaget, well known for his studies on cognitive development, found that this development occurs in discrete stages which occur in an invariant sequence and are age related. Piaget underscored the critical importance of activity and experience in generating growth and change. From this we might hypothesize that the ethical development of entrepreneurs in countries emerging from 40 years of central planning and totalitarianism will have to pass through stages such as those described above and that their ethical development also will require experience and time. By handling ethical dilemmas and learning from the ensuing experience and feedback, ethical consciousness will develop progressively. We can also develop several hypotheses about entrepreneurs in Eastern Europe from Kohlberg's conclusions on moral development:

1. We can expect that most entrepreneurs in Eastern Europe will exhibit behavior in stages I and II, but they will progress to stages II and III during the coming five to ten years. Individuals exhibit an underlying desire to progress toward the next higher stage.
2. There is no reason to teach or expect understanding of levels V and VI behavior. People can understand the reasoning and ethical systems one stage above their own, but it is useless -- as Kohlberg found in practice with individuals -- to expect people to understand and to embrace systems more than one level above their own. This is because of the experience required to move to higher levels.
3. Teaching business ethics to executives and students of business can affect their degree of ethical maturity and consciousness. The use of case studies about dilemmas and discussion is generally

more effective than lectures, which are of little value. But actual results from such courses in terms of behavioral change are likely to be very modest.

4. The environment, that is the overall ethical health of society, plays an important role in the development process. If corruption and self-interest prevail, it is unlikely that entrepreneurs will develop consciousness of business ethics where ethical behavior is not valued in the surrounding environment.

Does Good Business Ethics Pay?

So what does all of this have to do with entrepreneurship in Eastern Europe? Business ethics has a lot to do with profits and survival. As borders break down, as competition increases, as the ability to compete and survive depend increasingly upon quality, faster and more reliable delivery, and customer service, values such as honesty and integrity take on a new significance. Far from accepting the commonly held theory that a period of unscrupulous and irresponsible personal wealth creation is essential to jump-start failing economies, I maintain that there is an immediate need for entrepreneurs to apply the values described above to their relationships with each of the stakeholders in their enterprise. Several networks have missions to promote ethical practices in business and government. Among them are the European Business Ethics Network, the Business Council for Sustainable Development, Transparency International, The World Business Academy, the Social Venture Network Europe, and EBBF. During the work of EBBF with the College of Management, Trade & Marketing in Sofia, Bulgaria, to integrate business ethics into the curriculum, we asked a group of professors what are the most prevalent forms of unethical behavior in business. Their list included: misrepresentation of products or services (ex: false labeling), failure to respect specifications (ex: building), lack of purity in medicines, product claims made without testing, accounting "tricks", corruption and bribery, stealing from the company, and pollution. So there is a sense of what constitutes ethical conduct in Bulgaria. But the question remains in the minds of many: "Does good business ethics really pay?" Let's discuss a few examples of how good ethics can make good business sense in the more competitive environment of a free market:

- By developing a reputation for honesty, entrepreneurs can obtain financing from commercial banks and micro-credit facilities more easily and more quickly, and probably on more favorable terms. While it has been perhaps more effective in the past simply to offer a 'gift' to a banker in return for a loan, this practice will not last long as banking opens up to private and international banks. One bank had at the top of its list of criteria for making loans "honesty of the client" - even before ability to repay the loan. Even more important, honesty with customers in terms of performance, quality and price will be rewarded by loyalty, repeat orders, and positive word of mouth to introduce new customers. Calculations made of the life-time economic contribution of a loyal customer bear out how important customer loyalty can be.
- Trustworthiness is a key consideration in decisions of foreign partners whether licensing, importing or exporting, or franchising. A local entrepreneur is unlikely to find reliable partners abroad unless he can convince them that he is worthy of their trust and confidence.
- Fairness with employees and suppliers can make a real difference in their loyalty, motivation and productivity, as well as in the quality of products and services to customers.
- Respect for others is quickly sensed by customers and will make a difference once customers have a choice of alternative suppliers. It is also very important to demonstrate respect for employees in order to establish an internal climate favorable for good quality and service.
- Justice also has its place in business. For example, suppliers can be real partners for the entrepreneur if they feel they are being treated fairly and with justice, that is, being given a fair price and being paid on time rather than simply being exploited. =20During the early years of one of the world's best managed corporations, Hewlett Packard, its entrepreneurial president once reprimanded a purchasing agent for negotiating a contract which left no profit for the supplier,

> and called the supplier to negotiate a fairer contract. Needless to say, that supplier became a very loyal partner and remains today one of the leading suppliers of HP.

Even with the forgoing arguments in favor of a higher level of ethical conduct and consciousness, there are many sceptics both in former socialist countries and in the West. The legacy of the past 40 years in Eastern and Central Europe explains the large number of sceptics as well as the unethical practices so frequently found in business and other professions. Many of today's entrepreneurs have lived in a corrupt business environment where there was no competition, consumers had no choice, and foreign partners lived under the same system and practiced the same values. But scepticism is not limited to former socialist economies. It exists also in more developed economies where materialism is rampant and moral values are underdeveloped. So why should entrepreneurs change today and decide to climb up the ladder of ethical consciousness? Quite simply, and in closing, entrepreneurs' behaviour and values must change to reflect the radically different requirements for success in the economy now emerging from the collapse of the socialist central planning system. The trends are very clear: moving toward a free market system, privatization of major parts of the economy, new competition in most sectors, deregulation, new trading partners in the West, new market and consumer demands, new environmental constraints, and an increasing demand by the public for more responsible behaviour on the part of business and government alike. This change represents a revolution in the economic and social system, a revolution which is opening up a new world of opportunity for entrepreneurs, but a world in which the requirements for success and the "rules of the game" call for dramatic changes in business practices including good business ethics. Those entrepreneurs who are able to understand and adapt to these changes will create new wealth for themselves and for society as well.