

## The Role of Informal Economy and the Ethics in Manage the Human Resource and Business

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### **Abstract**

*A theme explored in this paper is the role of informal economy and ethics in manage the human resource and business in the country economy. This topic has been analyzed for the purpose of data how the impact of the informal economy in the country's economy, and that has been the role of ethics and human resources in organizations. The survey was conducted in organizations which operate in the Kosovo market, where it is analyzed the influence of business ethics in human resource management as well as in the informal economy. The purpose of the study was the analysis of influencing factors of ethical behavior in organizations in which employees work and act, then what is the reason of the appearance or non-appearance of cases and violations of law and code of ethics in organizations, where according to research has found that affect a large number of internal and external factors. Are also explored the factors that encourage and motivate businesses informalities entry, as well as preventive factors of informality in the economy of the country.*

**Key words:** *informal economy, ethics in business/ corporations, human resources.*

### **Introduction**

Business ethics involves matters of general policy and practices adopted in an organization and its activities in certain situations involving ethical considerations. Ethics is the study of ways to recognize and be placed on right or moral behavior, which is distinguished from wrong and immoral behavior. Business ethics is influenced by the behavior of senior managers responsible for business management. Businesses / public or private corporations own code of ethics on the basis of which addressed ethical issues employees. While the informal economy as concern has been and is present throughout the development of human society, it is since the early period of the relationship and economic thought. The informal economy is subject to many reason it can have numerous consequences for the individual and society. The informal economy is as direct taxes as well as indirect and fatal consequences for the country's economy and community. According to Llaqi (2010), managerial ethics includes all behavior standards or moral judgment that the manager should be used during the conduct of business. But for Mustafa (et. al., 2012), ethics serves as a guideline to analyze what is good or bad, it refers moral and fundamental values of the individual. The paying of taxes reduce economic power and social position of the tax payers, this negative effect of taxation encourages tax payers to pay tax and resistance their efforts undesirable effects to avoid tax or to facilitate (Kadriu,

2002). Tax evasion or avoidance of tax payment may be made for various reasons and has different consequences for taxpayers, in all tax systems more or less is present occurrence of avoiding paying tax (Jelqic, 1985). Inequality in prices and differences in customs charges stimulate smuggling phenomenon, and that indirectly affects the development of businesses within a particular society, smuggling occurs between the jurisdiction of various national states (Mathieu, 2011). For informal economy Komoni (2008) in his literature, "Public Finance", otherwise appointed as illegal economy, unofficial, informal shadow, parallel black market etc. According the Ferman (et al., 1973), the informal economy is described as irregular economy. For the prevention and minimization of the informal economy need to prepare human resources with international standard by avoiding practices and ethics education southeastern Balkan region. The Ulrich (1997) believes that the role of human resources is that they act as a factor of change, and play a key role in transforming and changing organizational culture. According to him, the changing nature of human resources work itself creates and seeks new challenges, requiring the addition of mental activities of expression in a request for new information, ideas, innovations, which are achieved through continuous education.

#### **Aim of study**

The purpose of this paper is to research how or which is the affects ethics in business /corporate and in prevent informal economy. Research questions will be: Ethics in business affects positive human resource management and the prevention of informality in the economy? Affecting the informal economy and business bankruptcy in macroeconomic policies? In this study, has been doing research in the field of ethics in business /corporate and the impact of the informal economy in the country's economy.

#### **Methodology**

For the preparation of this Material is used in the field of literature in business ethics, human resource management and the impact of the informal economy. Based on the specifics of this research is to use combined methods like quantitative research and qualitative research, which has helped to collect surveys conducted in organizations as well as documents published by public and private organizations. Sample selection is based on the following criteria: a) To analyze the organization which operates in the domestic market? b) The organization is officially registered businesses and orderly manner? Interviews are made based on experience with early research and consultation with experts in the field of research. Data, reports and surveys of participants were analyzed in detail, in order to create a picture as clearly related to research.

## **The findings in research**

### **Introduction and development of the informal economy**

Viewed from the perspective of literature, but also from aspect of analysis the documentations, and case studies, there is no unique definition for the informal economy. From an overview, in general, there are two approaches for the definition of this activity: a) The first sees as simply unacceptable economic activity (defining access), b) The second explains the notion of explaining the reasons for this illegal act (access behavior). Both of these approaches share the gray economy into three components: 1) Criminal activity. 2) Irregular activity. Also, according to one of the definitions, the gray economy (secret) can be explained best as national enter unfiled, calculated as the difference between national income and national income potentials recorded ". In semantic terms, gray economy most often defined as economic activities outside the relevant legal provisions, but is often seen as the informal economy or illegal economy. So it comes to economic activities are some elements which are not declared (undeclared economy) and not recorded so as unregistered economy and economic actions that are not taxed, and in literature and daily practice is occurring as tax. These activities are carried out social control, and therefore are considered irregular. This includes activities that are expressly forbidden, whose performance is related to economic crime (Vladusic and Pantic, 2008). In a broader sense, the gray economy includes any unlawful economic activity oriented economic benefit of persons who commit them, but at the expense of businesses that carry out this activity legally. Action informal economy has a direct impact on reducing the state budget and, at the same time, causing damage to other legal persons, who are in competitive relationship. Gray economy is present in practically in all segments of the economy, and in terms of our circumstances is much more common and as a result of slow action relevant institutions and the lack of legal infrastructure. Since this is a very complex phenomenon, causes and factors influencing the emergence of many graces economy. Based on interviews with the owners of certain businesses which operate in the Kosovo market, the main factors affecting the decision to enter the informal economy area of business are: 1) Slow functioning of the justice system and law enforcement mechanisms and the level of administrative control towards economic liberalization. 2) Economic instability shall. 3) The size of the gray economy also affects corruption. In developing and transition countries, as is our country, the high level of regulation is due to the circumference significantly greater corruption, which manifested difficulties in the formal economy activities and entry into the informal economy. Inadequacy with the market economy and the desire for quick enrichment represent the motivation to continue economic activity secret. The 90th session (Geneva, 2002), on the topic of "decent work and the informal economy", explain what that surplus labor, poor economic development, economic restructuring affect the growth of informal employment. This means that, in essence, on entry into the informal economy affect it economic nature factors and social factors. In addition to the causes and socio-

economic factors, such as factors the entrances of businesses in the informal economy are also considered factors such as: Psychological factors, such as a typical example is the loss of trust in the state, dysfunctional law and economic measures undertaken so far.

- The mentality of the people and his disagreement on objectives and measures macro policy respectively economic policies.
- The presence of high degree of risk in business, competition from other businesses that operate in specific market and which operate as informal businesses.
- Personal motives related to personal factors such as work experience, education level, etc.

In the case of Kosovo labor market analysis, data from the Annual Report of the Statistical Office of Kosovo shows that 'Employment rate in Kosovo (for 2009 year) is about 26.4% of the working age Population (16-64 years old) While Unemployment is about 45.4%. Therefore, the expansion and development of the informal economy, also contribute high level of unemployment, which lead to a fall in output and living standards. Negative impact on the economy of the country had also lost the confidence of the banking system, where during the 90s on many citizens lost their savings in the banks of the former Yugoslavia, which even to this day was not returned savers to banks, it is a problem that has not yet been discuss between representatives of the Republic of Kosovo and Serbia bank representatives which have received /saved money appropriated citizens. And citizens having no confidence in the banking system, more than 80% of transactions do with the cash money; this action affects the rest of distrust created for or in the banking system. Wars and conflicts for long years of 1991-1999, where he established a large number of displaced persons expelled, created an impression that the state bodies are not strong in choosing requirements / problems. So influential was simulated chain entry into the informal economy where entrepreneurs will be interested only personal benefit, in which also contributed relatively mild policy of penalties and interest not international Institutions that operate in the territory of the Republic of Kosovo to prevent Such phenomenon. International Institutions consisting of officials from whom you probably often lacked the will to work, because since 1999 when police and Institutions of UNMIK in Kosovo were installed, there has been no serious investigation against citizens / officials who conduct informal economy, dodge taxes, corruption etc. Where as a result of the lack of will and desire, such phenomenon grew and developed gigantic in other parts of Kosovo. Fictitious organizations were established verification and taxation of which was impossible. For many businessmen expanding informal economy organizations give also support unequal conditions of business due to lack of legal provisions, but also the failure of the existing legal provisions. Like the high degree of inefficient functioning of the tax authorities which represent suitable fact for tax evasion and gray economy. Informal economy forms differ more or less from place to place dependent on economic conditions and economic policies. But the informal economy forms are characteristic of the developed and developing

countries, but they differ in part from its format in transition. It appears or is manifested in different forms and in almost all areas of economic activity such as: illegal import and export, the introduction and adoption of unregistered currency, smuggling of various goods in the domestic market, avoiding paying taxes and other taxes, in ways that has been characteristic, especially in the northern part of the country. These municipalities for a long time were the auspices of international institutions as the UNMIK and EULEX, which with their passivity lead/ operate to encouraging, motivating and stimulating informality also in the southern part of the country, which action de-motivate the many business and citizens. As a result of flowering informality some businesses were developed very much and on the basis of economic parameters such businesses / organizations managed to increase initial capital, but the businesses which operate in ethical terms, such as contracted or went bankrupt. The owners of these businesses were rams employed in public institutions, or other organizations.

#### **Ethics in business and human resource management**

Today in Kosovo market the organizations operating in a complex environment where investors meet consumers / clients, creditors and competitors. Each of the above mentioned groups convey the interest of people who in some cases are also conflicts with perhaps inconceivable consequences for the market in which they operate. In the present context:

- Investors operate in terms of maximizing profits, and return on investment at a rate / period as soon as possible.
- Customers want quality products and services with the lowest rate and the lowest rate as reasonable.
- On the other hand, the interest of the creditors is to provide loans with interest for financial institutions, and
- At the same time acting competition in terms of penetration as deep in the market.

But all these actions, the actors in the market should be in accordance with the code of ethics. Today, to manage a business does not mean that we should reach the one purpose only as the profit. Therefore it is important that these concerns be accessed through forms suited human resource management and organization, without prejudice to the interests of society and the rules of the market, and that means mother action specified conditions known as managerial ethics. To act in an ethical means to act mother guaranteed market conditions and defined rules. In the southeastern Balkans, there are no rules which influence on ethics in business and human resource management. During the transition period, the economic crisis that struck the economy of the years 1981 and later, and then many years of wars since 1991-1999, 2007 global economic crisis had affected even more differences deepened ethical behavior organization, market and beyond. In this way non-economic factors affecting the stimulation of unethical behavior as entry into the

informal economy, promoting contraband, increase of fiscal evasion etc. It is also analyzed the influence of ethics in business, how much and how it affects positive human resource management, business and preventing the informal economy. More than 70% of SME surveyed do not own codes of ethics, this means that many employees in organizations / businesses are not aware of ethical behavior, and their rights and obligations of the organization where the act. Code of ethics has the public organizations, but in SME have only a small part of the private organizations which has a positive balance. Also problem presents in the implementation of labor law and the protection of workers in a contentious cases, taking into account the employees' contracts are limited and in some cases loses workplace social streamline the welfare institutions cannot support as is the case in Western European countries, where workers are paid 70% of wages and the system Justice acts quickly and without hesitation regardless of the type of organization and environment impacts. Therefore, although there is no denunciation of workers in certain moments to exercise informal businesses, smuggling or tax evasion is exactly fact in calculating the difficulties that may arise after then following the report that will have consequences for whistleblowers as employee or applicant of the case.

### Conclusion

Despite various forms of the emergence of the informal economy, they have a common purpose like paying or paying less: tax, excise, customs, as well as other contributions that increase their profits and advantage. Today, the informal economy is found even in the most developed countries, but it is always under control and not endangering normal economic movements. The extraordinary growth of the informal economy affect a number of factors that depend on each other as:

- Long-term negative economic trends and economic collapse.
- Unemployment, low standard of living and lack of perspective.
- The slow process of transition which to this day has not been completed.
- Years of war, as characteristic of the Balkan countries, special emphasis is the Republic of Kosovo, which has gone through a long period of conquest and as a result has experienced during the transition in the region.
- Construction of the slow legal system and the economic system and the lack of desire, the idea, the will to prevent / minimize the informal economy.

Businesses that exercise also includes informal activities in violation of the provisions on prices which hurt and sometimes fail economically certain businesses, then as a result of informal quality is not confirmed as the goods come in an irregular manner, uncontrolled consequences without imaging for consumers who are unprotected by buying poor quality products and suspects. Action to prevent the informal economy which, according to some research in the region and the country is from 30 to 60% is the creation of mechanisms that:

- Will disable the exercise of informal economic activity with measures in accordance with the law, increasing cooperation between governmental and non-governmental agencies.
- Financial and non-financial support through grants and certain benefits all of those businesses that are serious and carry out economic activity in accordance with managerial ethics.
- Taking to officers / businesses that handle or assist in the development and exercise of unfettered economic activity, informal businesses, since such activity cannot be exercised in complete economy.
- Implementation of the code of ethics in all businesses regardless of their size and position in the market. The growth of the formal economy would affect the improvement of macroeconomic policy, employment, improvement and growth of living standard and thus economic development of the country.

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