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Business Ethics by Manager Ethics

The flood of reports on the financial and economic crisis of recent months can be interpreted as a sign of an escalating loss of trust in the market economy and in its major actors.

The *Harvard Business Review*, normally not an organ that is known for suggesting sociopolitical reforms to the management of large companies, identifies as the third most important trend among "ten trends you have to watch": "Trust in Business is running out", and explains

"The strategic imperative for most companies is to do what they can to regain the trust of stakeholders and to more effectively manage relationships with them. This starts at the top. Corporate leaders need to demonstrate to civil society that they understand popular and political concerns related to executive compensation, risk management, board oversight, and the treatment of employees facing layoffs."

Researchers from the UN think tank known as the Millennium Project list 15 key global challenges for the future. In this list, the role of "ethical market economies" in helping to reduce the gap between rich and poor appears in seventh position – behind the problem categories of climate change, provision of clean water and population growth versus dwindling resources, but ahead of the threat of new disease pathogens, terrorism, weapons of mass destruction and organized crime.

Last but not least, various passages in the social encyclical *Caritas in Veritate*, published in July 2009, also take a clear stand on the subject of business and manager ethics.

Of course these ideas are not completely new – they have been an integral part of the debate on business and corporate ethics for many years. What is new, however, is that opinions on these subjects are being voiced in quarters where they were not so clearly heard in the past, if at all.

Traditional moral philosophy refers almost exclusively to actions and omissions of individuals – they are the moral subjects. However, today's corporate landscape and the global economy are characterized by a high degree of complexity, a pronounced division of labor and also an enormous density of interaction. The interplay of these factors means that the application of ethical concepts related to individuals remains important – but is no longer sufficient: the marked division of labor and responsibilities in relation to narrowly defined spheres of influence can lead to a situation where every single action is ethically neutral *per se*, but the combined result could be a collective irresponsibility that can no longer be attributed to the individual acting in isolation.

Organizations are better able than individuals to do different things simultaneously with the same degree of attention; engaging themselves, for example, not only in their operational activities, but also in the constitution, modification and discursive explanation of the moral standards that guide their operations. There are two aspects of importance to corporate morality:

- one consists in integrating moral aspirations and values into the corporate mission;
- the other consists in establishing every conceivable institutional framework to ensure that corporate decision-making is informed not only by the business variables, but also by normative variables, e.g. social acceptability, ecological sustainability and respect for human rights.

The most important elements of modern integrity and compliance management based on principles and values and thus on the incorporation of moral values and rules in precisely defined management regimes for specific transactions within and between companies are

- the nature of the organizational structure and the management principles of the organization,
- the quality of the personal codes of action and behavior, as well as
- the corporate guidelines for responsible conduct in morally sensitive, areas.
- Fully integrated systems of targets and incentives, as well as training in the proper application of corporate standards and consistent decision-making processes are of particular importance for an integrity management program.

- Finally, monitoring, reporting, an ombuds-institution and audits are part of the package for the establishment, promotion and life of an ethical corporate culture.

With the aid of these tools, those behaviors that are regarded in the company as legitimate can be filtered out of the infinite number of theoretically possible behaviors - and they can be enforced.

However, a company's governance structure and the various elements of governance do not just appear out of the blue. Guidelines, codes of conduct and organizational and management structures are the outcome of reflection in terms of their importance by *people*, who define and formulate their content and ultimately implement them in day-to-day practice. The personal constellation of values, i.e. the ideals, evaluation standards, assessment criteria and also the norms of the most senior managers define the moral quality and resilience of a company's governance. In other words, they specify behavioral preferences and restrictions that are applicable in the specific corporate environment.

No company acts only as an abstract legal institution, but always through the many different people working at different levels of the hierarchy: Morality – or lack of morality – is introduced to a social system by the people in charge, by their values and their level of integrity. Companies are only subject to normative controls by real people. The ultimate decision on a specific action or omission is always an individual moral decision. Thus the *people*– in whatever institutional setting – have to be held responsible as moral actors. The extent to which this responsibility can be met without moral heroism in a morally insensitive setting depends on the quality of the governance elements mentioned above.

While responsible behavior is "everybody's business", management elites in all institutions have a particular responsibility – also in companies. The particular responsibility in companies consists of value creation and profitability while doing business with integrity. By virtue of their authority the members of top management have a decisive, non-delegable influence on the values structure and moral culture of the company. The members of top management set and communicate the right "tone" and inspire others as a role model for good personal and corporate conduct. They send out signals both within and outside the company to show that ethical concerns are important and that they are concerned with things that go beyond the day-to-day routine and are of importance beyond the economic sphere. As a result, management elites have immense influence on the creation of a coherent "moral community" – this, by the way is true in the widest variety of cultures.

The proposition to entrust only "good" people with management responsibility sounds sensible, but does not get us much further in practice. I assume that the Gaussian distribution of people in companies does not differ essentially from that of individuals who work elsewhere, and that people normally join a company long after their primary and secondary socialization. We will find a few "saints" and "geniuses" at one end of the normal distribution curve and a few "rogues" and "idiots" at the other end and – in between – those "average people" who shape our society. It is therefore also part of good governance to expect "the average defects of people", as Max Weber puts it in his essay "Politics as vocation".

The only possibility of making a "top company" out of an ethically "average company" lies in developing the management personnel, the selection criteria and the promotion practices in such a way that as large a number of managers as possible are recruited from the right end of the normal distribution curve.

The requirements that people entrusted with important positions should fulfill are known since more than 2500 years and can be found in many classical texts. They should be personalities of integrity and not simply specialists in their own field, people who stand out from the "average person" in terms of Intelligence, trustworthiness, humaneness, courage and perseverance; they must have a wise sense of reason, incorporate justice, honesty, courage and prudence.

But where and how do we find the "ideal type" in real life to fill all those positions in which management responsibility, also of an ethical nature, actually has to be taken? It seems to be easier to describe than to develop the "ideal type" in the reality of corporate life and then to promote this type into the right position. The following institutional measures can help to ensure that the selection and development processes (management development) of companies are better adjusted in terms of moral requirements.

Normatively “enriched” content of objectives, performance appraisal criteria and incentive systems

It is human nature to consider “short term and close interests”, as Hans Jonas once put it, more important than “long term and remote obligations”. With incentive and appraisal systems that are insufficiently broad in their conception because they neglect moral aspects, there is a temptation to give priority routinely to what is useful in the short term over what is necessary in the long term, and in ethically ambivalent situations (if they are recognized as such) in favor of one’s own financial or career-oriented advantage.

Where moral conduct and intentions are regarded as a company resource – and not as a restriction in a market environment that neglects morals – upright customs and practices lose their potential irritant nature and competitive disadvantage. Where a social environment sees the introduction of this resource as positive and is prepared to be discriminating in its judgments on different qualities of corporate action, a positive added value emerges for society and the company.

If a company works with holistic incentives, then not only the objective, but also the path towards achieving it must be assessed. Also moral norms have a broader impact the more consistently their observance is monitored and compliance rewarded or breaches penalized.

A promising way of avoiding short-term economistic success without due consideration of social, environmental and human rights considerations is to break down performance appraisals into short, medium and long-term components where appropriate and feasible.

A second element is

Ethics training as a compulsory institutionalized part of internal and external corporate learning

Large companies that operate in different countries, are highly specialized in numerous fields and heavily based on the division of labor are the embodiment of highly fragmented responsibility. It is almost impossible to imagine that a large international company can create and preserve its identity beyond the uniformity of the company logo and the letterhead if not on the basis of shared moral values and norms. The recommendation to companies to reflect on an identity-preserving, moral basis and to pass on accordant values in internal courses is therefore critical.

Holistic management development imparts value-based training, in addition to business expertise, and practices this with case studies in concrete, real life situations. I agree with Albert Schweitzer's view that all reflections on ethics lead to an elevation and enlivenment of the moral disposition of human beings. Therefore, a minimum of value-based training is useful and necessary.

It should, however, not be only theoretical in nature as otherwise managers will perceive it as intellectually interesting but irrelevant for their business practice. Therefore one must combine basic knowledge of ethics with group work on real case studies. In this way, the identification of potential moral problems can be practiced, analysis of the ethical problems (in contradistinction to legal, technical, economic or social problems) can be learned and appropriate decision-making grids can be established. These may be case studies of a constructed general nature, but may also be examples of concrete moral dilemma encountered in real business life – in the best case including issues of the own corporate history.

Minimum intervals between promotions to positions of higher responsibility

If intervals between promotions are too short, this could also be perceived within the company as a sign that one needs to look as good as possible *in the short term* in order to make a career. In many respects, looking "good" in the short term is also possible using illegitimate means and the problems created as a result may not become apparent until the successor is in place and, in the worst-case scenario, may even be attributed to the successor. The person who really caused the problem then unduely looks even better ex post than he already appeared in the short term – a demotivating problem of fairness.

The promotion of a normative corporate culture and normative structuring of management instruments pays off not only in a reduction of transaction costs through confidence building, not only in the avoidance of damaged reputation or even fines as a result of activities either perceived as illegitimate, and not only in greater security of expectation for customers and stakeholders, but also in a greater appeal for present and potential employees with an affinity for ethical situations. This leads to a positive selection of applicants and ultimately a workforce that supports and enhances an ethically motivated corporate culture. All this suggests that to integrate moral elements into the decision-making process and apply corresponding criteria when selecting managers is also a rational choice from an economic perspective.