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CEP Magazine - May 2023

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Urban myths of business ethics

By Matej Drašček, PhD

According to chaos theory, a butterfly flapping its wings can cause a hurricane, but can an unethical decision by one manager have catastrophic consequences for the world's economy?[1] According to past incidents with Jeffrey Skilling from Enron, Richard Fuld from Lehmann Brothers, and others, the answer is yes.

Managers are finding it increasingly difficult to steer clear of the changing moral waters of doing business, and unfamiliar circumstances—the "new normal"—with no experience to lean on is increasing the demands even further. With low trust in businesses doing the right thing (61%), managers are feeling the heat from everywhere.[2] Stakeholders are increasing the pressure on CEOs and boards not only by demanding companies be profitable but also by speaking out on important societal and ethical issues. Thus, it is no wonder that research by Harvard Business School shows that the most essential skill for CEOs is to have "high ethical and moral standards."[3]

What is ethics?

First, ethics refers to well-founded standards of right and wrong that prescribe what humans ought to do, usually regarding rights, obligations, societal benefits, fairness, or specific virtues.

Second, and even more crucially, ethics refers to the study and development of one's ethical standards. Feelings, laws, and social norms can deviate from what is ethical. So, it is necessary to constantly examine one's standards to ensure they are reasonable and well-founded. Ethics means the continuous effort of studying one's own moral beliefs and conduct. It means striving to ensure that the person—and the institutions they help shape—lives up to reasonable and solidly based standards.

Which ethical theory is correct?

Great minds have pondered which ethical philosophy is correct but often gave conflicting answers. In general, normative ethics (how we should behave) is divided into two major groups:[4]

- One is focused on the act of the decision itself. Here, two grand ethical theories stand completely opposite: (1) utilitarianism, focusing on consequences and the principle of the greatest good for the greatest number, and (2) deontology, with the principle of moral obligations no matter the consequences.
- The other is focused on the person making the decision. Here, ethics—with the support of virtues and practical wisdom—help achieve purpose in one's life, namely happiness (e.g., eudemonia).

When putting these theories into practice, there is a catch. Let us take the example of business negotiations and the practice of bluffing. Assume that a manager is in the middle of negotiations that could dictate the company's survival. During negotiations, the manager starts bluffing (e.g., about future investments, products in the pipeline). Is this ethically correct? Based on utilitarianism, if the outcome of the negotiations produces the greatest benefit to all compared to the alternative (e.g., laid-off employees), it is ethically correct. Deontology, on the other hand, requires telling absolute truth, as this is our moral obligation, no matter the consequences. Thus, bluffing is unethical. Finally, virtue ethics provides us with a double-edged answer. If the purpose of negotiations is to ensure the company's survival and the manager's honesty, then this is ethically correct. Alternatively, if the manager bluffs to achieve personal benefit, then this is greed—a vice—and thus not ethically correct.

What are we doing wrong?

Ethics represents a cornerstone of corporate governance and has become a major issue for managers, board members, and employees. However, as shown with ongoing corporate scandals—as well as low public trust both in business and government—something with ethics is not working. But what exactly is not working, and more importantly, why?

Everyone (but especially people at the top) should take a step back and look at tacit truths about business ethics that are many times being forced into organizations. We will show six myths that do not hold true when scrutinized and checked in-depth. This can be dangerous for everyone because following these "accepted" best practices can actually lead to unethical behavior.

Research shows that these six myths are blindly followed by many organizations, usually with good intentions:

- Myth 1: The code of conduct supports ethical behavior.
- Myth 2: The compliance program helps the organization become more ethical.
- Myth 3: Whistleblowing tools reduce the risks of unethical behavior.
- Myth 4: More training in ethics is better.
- Myth 5: Individual "unethical" characters can be curbed with the right controls.
- Myth 6: Goals related to ethics or compliance help people behave more ethically.