

INDEPENDENT OR INFLUENCED DECISIONS?: THE ROLE OF MANAGEMENT

WHAT IS THE ROOT OF ETHICAL BEHAVIOR IN BUSINESS?



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What leads us to do right or to do wrong? Our personal qualities play a big role, but external elements present in organizations can also influence our behavior. Companies can develop incentives and guidelines on using power to encourage their members to act ethically.

BUSINESS ETHICS • ETHICAL BEHAVIOR •
MORAL CHARACTER

In 30 years dedicated to business ethics, I have had the opportunity to witness many positive behaviors in business management. I have observed efficient managers who act with integrity and honesty against all odds, showing respect and taking care of the people around them, and encouraging their growth as professionals and human beings. But I have also seen and studied many instances of deplorable behavior.

In both of these cases, we face the same question: What is the root of ethical behavior? Does it stem from a person's internal capacity to resist wrong and to do right, or does it stem from external factors?

A simple response would be to say that it depends on both things. Psychological and sociological studies have shown us a number of factors that influence moral behavior, and we can apply this knowledge to draw conclusions about good management.

INTERNAL FACTORS

James Rest, well known for his work on moral psychology, pointed out four key components of moral behavior. A person who has developed all four components is morally mature and will exhibit moral behavior. The elements are: a) moral sensitivity, b) moral judgment, c) moral motivation, and d) moral character.

Moral sensitivity. This element is the ability to recognize the ethical aspects of a situation that should be taken into account in deciding how to act. People with moral sensitivity realize how an action or decision will affect the wellbeing of others. They also can detect dilemmas and realize that they must be resolved.

With practice, moral sensitivity can be increased. On the other hand, moral sensitivity can decrease if people are obsessed with economic outcomes or if they systematically neglect ethics in decision-making. In such cases, moral sensitivity can disappear or the person may only appear to display it in those cases in



BUILDING AN ETHICAL COMPANY REQUIRES SELECTION AND PROMOTION PROCESSES THAT EVALUATE CANDIDATES' MORALITY

which an unethical solution would be prohibited by law anyway.

- **Moral judgment.** This element is the moral evaluation of an action or decision and the resolution of the dilemmas it poses. To execute moral judgment, a person uses ethical principles, as well as sincerity and practical wisdom, to evaluate a situation. A virtuous person with a reasonable training in ethics will make better moral judgments. Moral judgment comes from a sense of duty that drives one's own conscience and determines whether an individual will carry out an action or avoid it.

- **Moral motivation.** Moral motivation is the impulse underlying a person's decision to follow moral judgment. For example, we might be led by our conscience and sense of duty to respond to a situation in a certain way, or we might be motivated by our potential contribution to society or our growth as a human being. A person's moral motivation can also involve certain ideals, such as acting in accordance with his or her religion or in accordance with God's will.

All people have a spontaneous motivation to do right and avoid doing wrong, but this motivation can be more or less developed in each individual. When moral motivation is strong enough, it can allow a person to overcome conflicting motives, and, for example, refuse to participate in a dirty but lucrative business deal.

- **Moral character.** Moral character is a set of lasting positive habits or traits, traditionally known as "virtues." A person's character develops over their life through decisions freely made and actions carried out. In the business context, the traits that stand out include justice, truthfulness and courage. Moral character provides an inner strength to act with promptness, ease and joy.

Moral character is the most important of the four elements, because it strengthens moral sensitivity, fosters good judgment and facilitates the motivation to do good.

EXTERNAL FACTORS

- Sensitivity, judgment and moral motivation can be influenced by factors that are external to the person and that, to a greater or lesser degree, are present in any business organization. Various studies highlight the following: a) power and leadership, b) incentives and evaluation criteria, c) organizational culture and d) codes of conduct and accountability.

- **Power.** Formal or political power deriving from a person's position can have a strong effect on behavior in the company. Other forms of power and leadership can also be very influential. Power may generate fear or motivations that lead people to act in one way or another. This happens when employees fear reproach or punishment, or on the other hand, when they anticipate acceptance or a reward. Leadership can be transformative, affecting sensitivity, judgment and motivation, and leaders can set an example for employees.

- **Incentives and evaluation.** A specific form of the exercise of power is reflected in the system of incentives and performance evaluations. Effective incentives can motivate behavior. However, when systems of incentives, evaluation and monitoring focus exclusively on numerical results, they are unlikely to produce a moral motivation in behavior.

- **Organizational culture.** This element includes convictions and shared values, as well as an organization's own way of doing things. A culture with solid ethical values, involving moral integrity and respect for others, can foster a greater moral sensitivity and have a positive motivating effect. By the same token, a culture lacking in values – for example, one that harshly penalizes failures or tolerates bribery – does not encourage moral behavior.

- **Rules of conduct and accountability.** Compliance standards, codes of conduct and accountability procedures can also influence the sensitivity, judgment and motivation of company members.

However, these tools have little effect unless they are implemented consistently throughout the whole organization. Moreover, their influence is restricted to a limited number of aspects that do not cover all behaviors.

THE MILGRAM EXPERIMENT

● There has been much debate ● on the real influence of external factors on the moral behavior of people in organizations. Some points of view place so much emphasis on external factors that they deny that a person's character can influence his or her behavior. Writers adopting this point of view tend to allude to Milgram's famous 1961 experiment, whose results have been replicated in similar experiments on numerous occasions.

In this experiment, volunteers were pressured to administer electric shocks of increasing strength to people located in an adjoining room every time the latter answered a question incorrectly. Unbeknownst to the volunteers, the people receiving the shocks were in fact actors and the shocks were simulated. The actors responded to each simulated discharge with shouts, which the volunteers could hear. The 'Experimenter' ordered the volunteers to continue, adding that the procedure was legal and that nothing bad would happen. At the end of the experiment, volunteers would receive a promised reward.

Around 60 percent of participants followed orders, even those discharges that they believed were potentially lethal. Subsequent re-studies have yielded similar results.

Although the percentage is high, we cannot ignore character and other components of moral behavior. A rigorous interpretation of Milgram's must point out that 40 percent of volunteers refused to continue because their conscience did not allow it and they had enough courage to say no. It is also likely that those who followed orders to the end also realized that it was not acceptable to

administer electric charges causing the death of innocent and defenseless people. They likely rationalized that it was only an experiment or they worried that they wouldn't receive the promised reward if they didn't follow instructions. Perhaps they were lacking courage to refuse to continue.

PRACTICAL CONSEQUENCES

● If we examine the elements of ● moral behavior and the external influencing factors, we can draw some useful conclusions for management:

① All human beings have some ability to recognize moral quandaries, to apply moral discernment and to motivate themselves to do good, although these abilities can be more or less developed in different individuals. All people possess a moral character, which can be stronger or weaker. Building an ethical company requires selection and promotion processes that evaluate candidates' morality.

② Moral behavior depends on each person. However, the less developed the moral maturity of company members, the greater will be the influence of the business environment on their behavior.

③ Employees and managers may be afraid to act right or express their moral judgments when the organizational environment doesn't encourage it. Nonetheless, moral conscience does not disappear when we get to work, but it can abate. The moral character of each person is always present and it pushes people to act right and to fight the tendency toward greed and excessive ambition.

④ Some business policies and practices can reinforce or promote moral behavior. In particular, the effective exercise of power and leadership, well-designed incentives and evaluations and the right organizational culture play an important role. Compliance standards, codes of business conduct and accountability procedures, when implemented well, can also help.

THE EFFECTIVE EXERCISE OF POWER AND LEADERSHIP, WELL-DESIGNED INCENTIVES AND PERFORMANCE EVALUATIONS, AND THE RIGHT ORGANIZATIONAL CULTURE CAN ENCOURAGE MORAL BEHAVIOR