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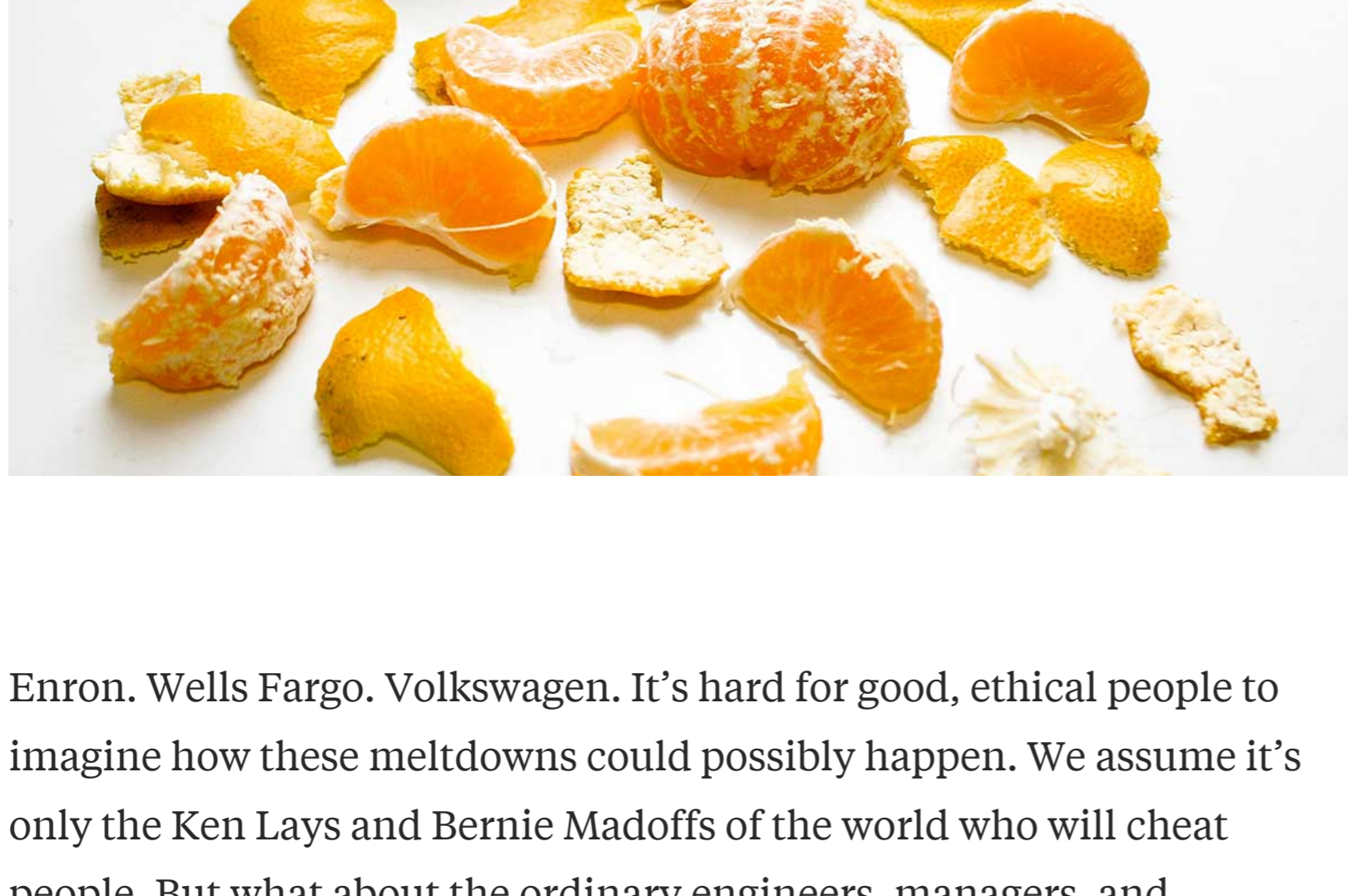
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Business Ethics

What You Can Do to Improve Ethics at Your Company

by Christopher McLaverty and Annie McKee

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Enron. Wells Fargo. Volkswagen. It's hard for good, ethical people to imagine how these meltdowns could possibly happen. We assume it's only the Ken Lays and Bernie Madoffs of the world who will cheat people. But what about the ordinary engineers, managers, and employees who designed cars to cheat automotive pollution controls or set up bank accounts without customers' permission? We tell ourselves that we would never do those things. And, in truth, most of us won't cook the books, steal from customers, or take that bribe.

But, according to a study by one of us (Christopher) of C-suite executives from India, Colombia, Saudi Arabia, the U.S., and the U.K., many of us face an endless stream of ethical dilemmas at work. In-depth interviews with these leaders provide some insight and solutions that can help us when we do face these quandaries.

We were surprised that 30 leaders in the study recalled a total of 87 "major" ethical dilemmas from their career histories. Over 50 had occurred in the course of the last five years. Another surprise was how few of the incidents were caused by bribery, corruption, or anti-competition issues (only 16% of all ethical dilemmas mentioned). More often the dilemmas were the result of competing interests, misaligned incentives, clashing cultures.

Based on this study and our collective experience of working with thousands of business leaders, there are a number of obstacles and contradictions we see most often impact the ability to act ethically:

- **Business transformation programs and change management initiatives.** Companies can warp their own ethical climate by pushing too much change from the top, too quickly and too frequently. Leaders in the study reported having to implement staff reduction targets, dispose of big businesses in major markets, and lead mergers and acquisitions. Some of these activities included inherent conflicts of interest; others simply caused leaders to have to act counter to their values (loyalty, for example). Many leaders felt poorly prepared for the dilemmas they faced and felt compelled to take decisions they later regretted.
- **Incentives and pressure to inflate achievement of targets.** People do what they are rewarded to do, and most leaders are rewarded for hitting targets. Take Wells Fargo as an example: Managers were rewarded for the number of accounts they opened and managed. As a result, apparently, many felt driven to open accounts that customers didn't request or approve. The lure of incentives are a problem in boardrooms too: Bonus payments and executive share schemes are often based on short-term business metrics, which can be counter to long-term success.
- **Cross-cultural differences.** Most leaders in the study reflected on how rapidly their businesses had globalized over the last 10 years and how ethical issues can be profoundly difficult when operating across different cultures. They talked about how challenging it was to decide whose cultural "rules" were paramount when making business decisions. They gave examples like closing a sales office in Japan, breaking a verbal promise made during after-work drinks in China, or ignoring "sleeping" business partners in a Saudi Arabian deal, all of which have cultural and ethical components.

While these obstacles stand in the way of making ethical decisions, they aren't insurmountable. Here's what we learned from the leaders in the study about what worked for them in improving the ethical climate in their organizations:

Know where you stand

The senior leaders in the study told us that, in contrast to what corporate compliance officers would like us to believe, their organizations' codes of conduct and ethics training wasn't particularly helpful when it came to managing ethical dilemmas. Rules and regulations often don't cover the majority of ethical issues, especially those around people and resource trade-offs. Even the law, they said, is limited as it's usually geared to big transgressions.

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Instead, you need to understand what matters to you. Companies become ethical one person at a time, one decision at a time. If you don't know where you stand, or if you can't accurately read your organization's underlying culture, you'll find yourself blowing in the wind (at best). [Emotional intelligence](#) can help you here. Self-awareness enables you to build and strengthen that inner compass. Organizational awareness enables you to identify the forces in your company's culture and processes that could drive you and others to do the wrong thing. You also need emotional self-control: it takes courage to step away from the crowd and do the right thing.

Learn what really matters in your organization

To be able to challenge the unwritten rules of your organization — and the systems that support them — you need to learn to listen to weak signals about what the organization truly values. There will usually be lip service to doing the right thing, but what happens in practice? You can, for example, pay more attention to:

- **How people are paid.** Does your compensation scheme reward the right things? Is the focus on short-term results or long-term sustainable success? Are the right staff included? Long-term schemes should include those future workers, supervisory staff, and different demographic groups. This ensures that the entire workforce is focused on longer-term sustainable goals.
- **Who gets promoted and why.** Is there a true meritocracy in your company, or are certain people treated better than others? Are people who reflect on ethical issues, who speak up and challenge accepted ways of doing things, truly valued? Perhaps people are promoted according to unwritten rules that will ensure compliance with the status quo. In an ethical organization, talent management is a transparent and objective process — everyone gets a fair shake.
- **How employees feel about the company.** We want to work for businesses we can be proud of. If your engagement surveys show that people don't trust managers, or that employees are disengaged and ashamed of the company, you might have a widespread ethical problem on your hands.

Build a strong and diverse personal network

According to the study, the most useful resource that leaders have when faced with an ethical dilemma is their own personal network. This provides an informal sounding board and can highlight options and choices that the leader may not have considered. When making ethical decisions, it's important to recognize that your way isn't the only way, and that even mandated choices will have consequences that you must deal with.

The challenge is that most leaders have networks full of people who think and act like them and many fail to seek out diverse opinions, especially in highly charged situations. Instead, they hunker down with people who have similar beliefs and values. This can lead to particularly dire consequences in cross-cultural environments.

To overcome this, you need another core emotional intelligence competency, [empathy](#), which allows you to learn how to read others and truly understand what matters to them and what they care about. This will, in turn, help you connect with people and gather their thoughts, opinions, and help when you need them.

Speak up

If, after consulting your network, you believe something's going wrong, it may be time to be brave and speak up. Leaders in the study repeatedly highlighted the positive consequences of speaking out and at least trying to resolve their ethical dilemmas by remaining true to their own personal values.

If you find you need to speak up, there will be a number of choices to be made. Do you talk to the boss? Consult with peers? Work with advisory functions such as legal, compliance or human resources? You can draw on your personal network for support and guidance on the right way forward within the context of your unique situation.

The leaders in the study were clear about the consequences of taking these actions: increased self-respect, improved confidence in their ability to address future dilemmas, and a more ethical work climate. And perhaps more importantly, taking brave action made them [happier](#) at work.



Christopher McLaverty advises companies on their capability architecture and leadership development programs. He holds a Doctorate from the University of Pennsylvania and a Masters in Coaching Consulting and Change from INSEAD. His research focuses on business ethics, ORGANIZATION dynamics, networking and leadership development in cross cultural work environments.



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