Barriers to Ethical Behavior: Problems and Remedies

I recently attended the Ethisphere Global Ethics Summit. At this event, the host Ethisphere announced its annual ranking of this country's most ethical corporations. Interestingly in an effort to correlate ethical behavior and good business news, Ethisphere reported that these companies averaged earnings which exceeded the S&P average over the past three years. From this position, Ethisphere urged that good ethics is good business because companies which engage in good ethical practices have better earnings than those which do not operate in such an ethical manner.

However, just as Ethisphere and other organizations strive to have companies understand that good ethical practices are in actuality good business practices, other people and organizations are studying how ethical lapses can occur. In an article in the April edition of the Harvard Business Review, entitled, "*Ethical Breakdowns*" authors Max Bazerman and Ann Tenbrunsel explored the question of why good people allow bad things to happen is the business setting. They begin their article by noting that they believe "the vast majority of managers mean to run ethical organizations" and while there are some "out and out crooks," the majority of ethical lapses in companies occur because of either the blinders of leadership or that business leadership may "unknowingly encourage" unethical behavior in their companies.

The authors focus on five barriers to conducting in business in an ethical manner. They provide an analysis of each barrier and suggest possible remedy each of the barriers. While the authors note that compliance policies and procedures to implement business ethics are important, they feel that even the best intentioned [compliance] program will fail if it does not take into account biases which can blind management and employees to unethical behavior.

1. Ill Conceived Goals.

The authors define this barrier as a goal or incentive to promote change or a behavior that encourages a negative one. They cite to the example of the Ford Pinto where the Ford Motor Company discovered in pre-production crash tests the "potential danger of ruptured fuel tanks." Ford then engaged in a thorough and exhaustive cost-benefit analysis on the costs of lawsuits from a defective product and "determined that it would be cheaper to pay off lawsuits than to make repairs." The authors end by noting that "a host of psychological and organizational factors diverted the Ford executives attention from the ethical dimensions of the problem…"

As a remedy the authors suggest that business leaders must understand the incentive systems which their company has in place and the effect that it has on the workforce. They suggest "brainstorming unintended consequences when devising goals and incentives." Management should also consider alternative goals may be important to the reward.

2. Motivated Blindness

The authors understand that people most often see what they want to see. But they suggest that this is something further, the companies will overlook unethical behavior when it is their interest to do so. They cite to the example of the failures of the credit rating agencies which contributed to the economic downturn. These credit rating agencies provided AAA credit ratings to "collateralized mortgage securities of demonstrably low quality" and the authors believe this helped drive the crisis in the housing market. The motivated blindness came from the fact that the credit rating agencies were paid by the same companies that they rated so that they "made their profits by staying in the good graces of the companies that they rate."

These conflicts of interest can be quite powerful, even if a company or an individual employee is aware of them. The authors suggest that a company "root out conflicts of interest" because awareness of them may not be enough to protest a company from such ethical lapses. Executives should look to "remove them from an organization entirely, looking particularly at the existing incentive systems."

3. Indirect Blindness

Unfortunately a company will often overlook unethical behavior in other companies. This is the classic situation where a company with strong ethical values employees an agent or other third party representatives whose conduct may not meet a company's ethical standard. In this barrier the authors cite to the example of the drug company Merck which sold two cancer drugs to the company Ovation. Soon after the sale, Ovation raised the prices on the two cancer drugs by "about 1000%" while Merck actually kept producing the two drugs. The authors assume that Merck sold the two drugs to Ovation so that Ovation could raise the price and not Merck.

The authors decry this outsourcing of unethical "dirty work". Even if Merck did not know that Ovation would increase the price so dramatically the authors believe that any amount of due diligence on Ovation would have revealed that "it had a history or buying and raising the prices on small-market drugs…" Any company which has such a business representative should understand whom it is doing business with and that it cannot outsource unethical behavior or assign a task which might invite unethical behavior.

4. The Slippery Slope

Every law student is taught how to argue down the slippery slope. You start at Point A and pretty soon you have come to the end of western civilization as we know it. However the authors turn this phrase, so that they define it that companies often fail to "notice the gradual erosion" of ethical standards. Under this barrier the authors cite to the example of company auditors who find minor violations by their client company over several years and which by the final year the has become a large violation or error. As the outside auditors overlooked it all along, they might well overlook it when it becomes a violation.

As a remedy for this barrier, the authors maintain that vigilance is necessary. Managers should be on the look-out for even trivial-seeming infractions but the real key is to address them immediately and not let them drag out. Additionally, there should be some type of inquiry to determine if a change in behavior has occurred.

5. Overvaluing Outcomes

The authors' final barrier is that they believe that many companies will "reward results rather than high-quality decisions." This can lead to companies rewarding unethical decisions because such decisions have a good outcome. But, as the authors note, this can be "a recipe for disaster over the long term." The authors believe that companies will judge their employees actions on whether any harm may follow from an action, rather than focus on the ethicality of the decision or action.

The authors believe this final barrier can be overcome by having the possible outcomes of any decision or action analyzed for both good and bad ethical implications. Focusing on the process of decision making is much more important than simply accepting the outcome. Companies should examine behaviors which "drive good outcomes, and reward quality decisions, not just the results."

The authors conclude by noting that companies should not simply employ "surveillance and sanctioning systems" but train leaders to avoid the types of biases which can lead to the barriers listed in this article. The end by noting that each employee should be trained to ask the following question, "*What ethical implications might arise from this decision?"* And this advice may be the most important take-away from the article.

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