Six causes of corruption in a company

Say the word "business" and "ethics" isn't always the next word to spring to mind. The business world has been combatting a poor moral image for centuries. But IESE's Antonio Argandoña argues that the health of a company depends upon ethics being perceived as a fundamental value, rather than an optional one.

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Suppose the manager of a bank is considering whether or not to ask employees to sell a high-risk financial product by presenting it to customers as an ordinary guaranteed deposit.

The manager in such a situation might consider various dimensions of the situation:

- **Economic**. What economic results might the transaction bring? A comprehensive estimate would include calculating potential profits while taking into account any possible losses that might result from fines or an erosion of consumer confidence.
- **Social**. This would include labor-related issues and noneconomic professional aspects, such as the satisfaction derived from doing one's duty, or the ability to resolve a complex matter and keep peace in the office.
- **Ethical**. A competent executive would weigh the moral consequences of such a plan, both for him- or herself and for employees.

In cases like these, economic criteria tends to hold the most weight and shape most decisions. In a for-profit organization, this comes as no surprise.

Nonetheless, social and ethical criteria should always be considered. Dishonest practices and lies have a tendency to multiply and create a corporate culture with low morality. Employees who have been encouraged to use deception to increase corporate profits may see no reason not to do the same for their own gain.

Meanwhile, those who don't want to be associated with fraud might leave the organization, leaving only the less-honest employees. This in turn would likely have predictable consequences for the company — both for its profits and its prestige.

How We Make Decisions
IESE Professor Emeritus **Antonio Argandoña** looks at just such decision-making dilemmas in a 2014 article on common reasons for clashes between ethical values and corporations. He lays out the six organizational and societal factors that can cause corruption to take root in a corporate setting:

- **The way corporate management works.** Decisions are often complex and must be made quickly. In firms, there is considerable pressure to achieve maximum profitability in the shortest time possible.
- **Inertia in decision-making processes.** Teams can be very large, making it difficult for them to change course.
- **An insensitive corporate culture.** Results might be the central focus, with everything else deemed secondary to economic considerations.

- **Behavior rationalization.** Messages like "it's always been done that way" or "if we don't do it, our competitors will" justify any behavior and neutralize attempts to change.
- **The socialization process.** Statements like "that's how we work around here" or "you better do it if you want to be one of us" are also used to silence criticism, by appealing to employees' loyalty and wish to belong.
- **Society's values.** Today's culture is governed by values such as individualism, utilitarianism, emotivism and relativism.

So how can we defend ethics in business? Argandoña highlights that moral crusaders often present ethics as a basic condition for achieving good results. It's an argument that doesn't always hold up, as we are all familiar with unethical companies that are doing very well. If acting with integrity is no guarantee of success, how can we promote ethical behavior?

A Learning Process

Our decisions have an impact on those around us. Over time, we can create an environment of commitment, knowledge-sharing and development that benefits a company. Conversely, our decisions could lead to discouragement and mistrust between employees as well as among customers, partners and suppliers.

Developing the capacity to behave ethically is only possible if people are willing to do so. It requires sensitivity, interest and an understanding of what is appropriate.

Argandoña asserts that managerial virtues are habits that are acquired and then developed, "through the deliberate, painstaking, voluntary repetition of acts focused on constant improvement."

Building an Ethical Team

Once managers have improved themselves, they must pass these improvements on to the team and build an ethical corporate culture from the ground up.

Theory, codes of conduct, positive and negative incentives, and social support are all key factors to mobilize an entire organization to behave more virtuously.

But leading by example is the most effective way to breed habits — whether good or bad.

Let's look at the case of the bank manager again: the manager's misconduct could easily invite imitation among employees, with knock-on effects for corporate culture, prestige and perhaps profitability.

It doesn't have to be that way. A better manager should embody the behavior he or she wants to see.

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