Good ethics really is good business

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Faced with the risks of doing "business as usual", some managers are beginning to shift their focus from short-term gain to long-term sustainability.

In the first decade of the 21st century, many businesses learned firsthand the moral and financial risks of focusing exclusively on short-term financial gains. Just take the example of Lehman Brothers, which, after 158 years of successfully doing business, went bankrupt over the space of just one weekend.

The causes: horrific mismanagement and a reckless disregard for moral hazard. The results: the worst global recession in decades.

The Lehman Brothers debacle is just one of a long and growing list of recent business management scandals that now includes Arthur Andersen, Enron, Parmalat and Bernie Madoff.

In his book, *Management Ethics: Placing Ethics at the Core of Good Management*, IESE's Domènec Melé seeks to shift our gaze from short-term gains at any cost, to a deeper, longer view of management.

Melé argues that good management should take ethics into account because management is about people, and dealing with people requires ethics.

A business is not a machine; it is first and foremost a human construct. Those who run the firm are free individuals who cooperate within an organization with common goals, and the decisions and actions a manager takes have the potential to benefit or hurt other people.

Thus, ethics is not an artificial add-on to business, but an intrinsic aspect of good management.

Companies should, therefore, resist seeing people as resources or just a means for profit. Ethical management is about recognizing what people are, treating them accordingly and fostering their development.

Basic ethical requirements for good management

Ethics are embedded in management: first, through decision making; second, through the ideas that drive the practice of management; and third, through the moral character of the manager him or herself.

Making and acting on ethical decisions contribute to good management in many ways, such as helping to humanize business, generating trust, fostering loyalty, encouraging responsibility and helping to develop a strong moral culture.

Melé avoids complex philosophical discussions to present a way of thinking about ethics on very basic principles, such as the Golden Rule, which states that one should treat others as one would like to be treated oneself, and Natural Moral Law, which holds that certain rights or values are inherent to human nature and recognizable by human reason.

Respect for human dignity is another principle that Melé proposes, along with the necessity to contribute to the common good of the communities to which one belongs, and society at large.

Three basic values, and their corresponding virtues, are upheld as critical to ethical management: justice, truthfulness and intelligent love.

Justice renders to each what is rightfully theirs. Truthfulness refers to the observance of truth in speech and behavior, and a disposition to search for the truth. Intelligent love ? understood as love driven by true knowledge of the real needs of the other goes beyond justice and entails care and benevolence.

What about efficiency?

Ethics and efficiency are intertwined. Efficiency depends on many factors, including technology and production processes, but also on the willingness of those in an organization to work toward goals and cooperate with others.

Underlying this willingness are trust and morale, which can be jeopardized if stakeholders feel manipulated, overlooked or treated unfairly.

Having an ethical sense pushes one to act in the best way for the purpose of efficiency. In turn, firm efficiency contributes to the common good. An efficient use of resources provides material support to human life and makes economic goods more widely accessible.

Through increasing competitiveness, efficiency also contributes to creating and preserving employment, thus helping to provide a livelihood for a greater number of people.

The person, the firm and the common good

Business managers always face a trade-off between generating profits and being responsible to their firm's many stakeholders. Shareholders, employees, customers, suppliers and the local community all have a stake in the success or failure, sustainability or loss of the firm.

In a nutshell, while making a profit is necessary and important, it is not the sole purpose of business.

The firm contributes to the common good and to sustainable development. It does this by creating wealth and knowledge, by performing as a responsible stakeholder and being a good corporate citizen.

This means seeking not only economic results, but also positive impacts on society and the environment. Sustainability should be integrated into all processes, products and activities.

Key moral competencies for managers

Moral competencies, including character and virtues, have a particular importance in leadership. Character shapes the vision, goals, strategies, perception and other key dimensions of the leader. As Peter Drucker said, "It is character through which leadership is exercised."

The most important quality of a good leader is his or her willingness to serve others. This requires concern for other people, helping them to achieve worthy objectives.

Other essential moral leadership skills are responsibility, honesty, loyalty, compassion, gratitude, solidarity, courage, patience, constancy and integrity.

While ethics may not be a cure for all the ills affecting the economy, they are absolutely vital if we are one day to move beyond the current crisis to a sustainable recovery.

As Melé contends, by helping managers choose the best possible alternative in each situation, ethics offer a sure path to better business practice, and even a better world.

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