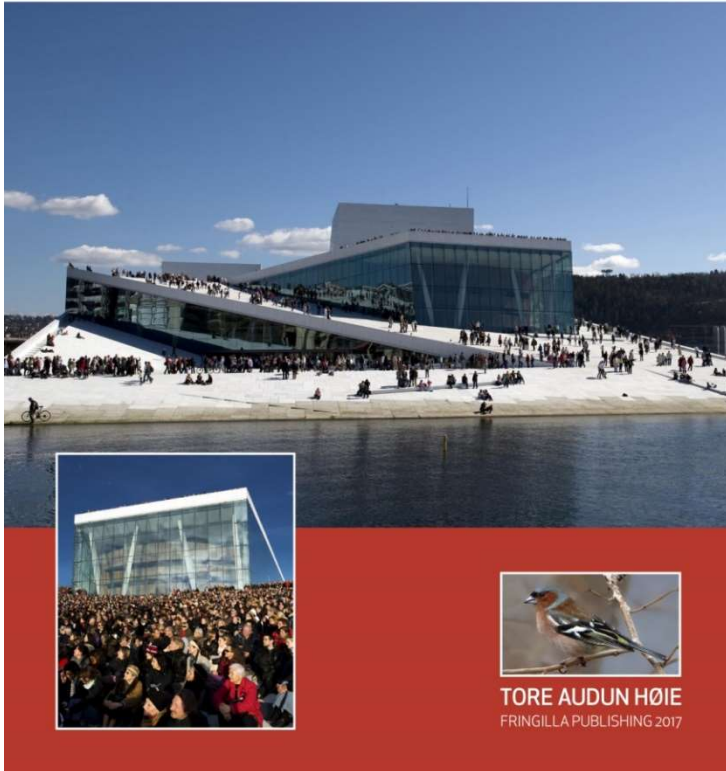


ETHICAL MANAGEMENT

- Creativity, Sustainability, Governance



The Economist 2016:

**“Management theory is becoming a compendium of dead ideas
Productivity growth is dismal in the West, companies are fusing at a furious rate, entrepreneurialism is stuttering, populism is on the rise and the old rules of business are being torn up.”**

Ethical Management

By **Tore Audun Høie**, November 2020.

Ethical management means that management should be based on ethics.

Ethics includes social responsibility, quality, security / safety, professionalism, and Nature.

Short introduction Ethical Management, contact tore.hoie@vikenfiber.no for more.

Ethical vision

A new ethics is needed, in response to corruption, fraud, cheating, poor quality, tax evasion, lack of professionalism, obsolete management, pollution, wars and incredible incompetence. This ethics is based on modern developments, like ISO 26000 and guidelines for investors, indicating the need for better accounting principles. Some organisations show the way, like Red Cross, incorporating two religions, and with 97 million members. Advanced companies combine ethics and business to provide good products and healthy profits. This combination provides a vision for the future, missing for many traditional corporations, but strong and motivating among some leaders.

The vision is of a world for its people, with climate and finances controlled, and possibilities for all, not only the rich. Companies will provide useful products and services, nations will target health, schooling and other common benefits, and citizens will become increasingly involved in Earth governance. Ethics is about doing things right, but also about doing the right things, or, as Aristotle says, to do good work over time.

A management built on ethics is suggested, and is possible due to global guidelines and the structure they provide. Some businesses have built impressive ethical frameworks, and are also successful. They show how ethics can be good business.

Reasons and values

1.1 Chapter overview

This chapter will present ethics as applied to organisations at an introductory level, to be further investigated in the following chapters. An overall chapter goal is to establish the basics of an ethical framework, enabling the reflection needed for the rest of the book.

The first task is to show the value of ethics, at a preliminary level. This is not only to avoid mistakes, but also to establish visions, enable sound relationships and check the coherence of strategies and projects. While this book was being written there was strong development in two directions. One was to promote the values of ethics, especially in teaching. Another was a steady stream of new crimes and transgressions, some intriguing and even funny, but in sum questioning the value of today's management training. Hopefully, the development may lead to more emphasis on sound teaching.

A definition of ethics will be developed, unfortunately there is no consensus on what it is, and some definitions land uncomfortably close to the established morals of powerful countries or organisations.

The context of ethics will be outlined, including relatively new concepts like compliance and positive ethics. Many organisations practice what here is called instrumental ethics, i.e. ethics to impress and sometimes deceive, but not meant sincerely. This is a risk, if stakeholders or media find out.

Internet and mobile technology are useful to promote a positive message, they may also help to investigate wrongdoings and hypocrisy. Bloggers, more than mainline media, have recorded and followed up the wrongdoings presented in chapter 2. The Arab Spring used modern technology to spread its message, often of government atrocities. Even for people disliking ethics this is a message; if you cheat, murder or torture, someone with a mobile camera can record and publish.

Additional principles will be presented; an organisation may adopt some and ignore others, but that should be done in a reflected manner, at least asking questions. Why do we object to being open? What status has creativity in our organisation? Is what we do sustainable?

An important function of ethics is as a «measure» of morals, an evaluation mechanism. This is especially relevant in an international context, where national, regional, religious and other morals are involved. A central goal is to find guidelines that are fair and helpful, and can be accepted all over the world. This chapter will start this ambitious work.

In sum, this chapter will enable students and others to perform basic ethical evaluation needed for chapter 2, where instructive cases of bad or substandard ethics are presented.

Methodology will be the last part of the chapter, to show how this was done, especially the path from individual ethics to organisation ethics.

Why ethics

This book intends to show the value of ethics, and hopefully inspire more research. Ethics is ideally a fundamental subject for all higher education, emphasizing reflection and a meta-approach. Ethics courses are from 2012 compulsory for bachelor-level economics in Norway.

More arguments for a high-profile ethics education or organisation policy are:

1. A **fundament** for values and visions. Many organisations express these on their websites.
2. To **avoid** various exposures and risks, even to reputation.
3. To **motivate** employees – many like to do something important.
4. For positive stakeholder **relationships**.
5. An overall check on plans. Are they consistent, durable and sustainable? This view is called **holistic**.
6. Part of making the organisation **sustainable**.

These arguments are expanded below:

1.1.1 *Fundament*

Many organisations display full ethical guidance, or Codes of Conduct, on their websites, others ignore the issue. There has been a noticeable positive trend raising awareness, perhaps starting in 2010 with ISO 26000 and the UK stewardship code 2010. An increasing number of organisations appear interested in ethics.

One group that has improved rapidly are those accused of some sort of wrongdoing (Dell, Pfizer...), perhaps a long-term trend, see Sims 1991.

A large international study indicates that modern employees lack motivation (Gebauer 2007), they partly distrust management, and would like to do some sort of important work. This is quite different from the world some economists describe, where motivation is based on pay and bonuses.

Many of these employees, and recruitment candidates, visit organisation websites, excellent places to promote values. However, few organisations leave a lasting positive impression – there are few As. There are a number of Bs, doing good work, but not impressive.

Websites can be used for recruiting. But they can have a more fundamental role, expressing the organisation “soul”, its culture. What sort of company are we? Where will we be in 10 years? Why should others trust us? Why are we important? What do we contribute to society? Why would you want to work here?

Values/strategies for organisations will be presented in chapters 6 and 8. Some are poorly written, questioning management and especially governance. Why do corporations present themselves to the world with statements that are sterile and sometimes inconsistent? The Board should be involved, ensuring that what is expressed is the best the organisation can do. Hiring someone for better English or quality-assured ethical statements is a minor expense.

- 2 Ethics can be a direct help to writers, it facilitates thinking about meta-issues, concepts that are bigger than daily life, a conclusion of current thoughts, or an “umbrella” where even future thoughts can fit in. Sustainability is such an “umbrella”, where even contributions of future employees or members are welcome, in order to secure, yes, sustainability. Chapter 8 has several examples of positive ethical thinking, suggesting that for business, ethics may be an important success criterion.**

For nations, another group of organisations, birth rates are important since the babies will be future taxpayers, and perhaps care-givers. Birth rates can be helped by good government, an optimistic culture and even concrete issues like kindergartens. An analysis at this level is important, but few if any economists do it well. It involves expenses, where the benefits are uncertain and far ahead in time. Immediate wishes may outrank future needs that are perhaps more important.

Many agree on the importance of good schooling, but some countries plan by cutting school budgets or increasing school fees (example the UK). Others (like the US) “motivate” teachers by a competition culture, where you may easily lose your job. Classes are very different, in large classes the chance of social misfits or psychopaths is higher. So, your future is determined by chance, not by skill or diligence. This probably limits recruitment to teaching, and there is also the question of pay, normally low for teachers. For a future-oriented sector, reflection is especially valuable.

3 Avoidance

One contemporary issue is **extreme weather**. Danish engineers recommend 50% bigger diameters for water drainage pipes in Copenhagen, a large cost because more rain has become the norm. Insurers can (and probably will) increase prices in exposed areas, a message to politicians. More directly, insurers can team up with climatologists and engineers to assess damage from extreme weather. Will it be permanent or get worse? That damage has to be paid, the bill will be added to your taxes and insurance policies.

Unfortunately, the world is already at the stage of secondary avoidance, as we attempt to limit the consequences of something we did not do years ago.

In the ClimateWise programme, 40 insurers cooperate to reduce their environmental impact and support climate awareness among customers (www.climatewise.org.uk January 2012). Its principles are:

1. **Lead in risk analysis.**
2. **Inform public policy making.**
3. **Support climate awareness amongst our customers.**
4. **Incorporate climate change into our investment strategies.**
5. **Reduce the environmental impact of our business.**
6. **Report and be accountable.**

Figure 1 ClimateWise principles

This is practical, useful ethics that can promote trust, preserve values, save lives and Nature.

The above combines **proactivity** (avoiding problems) with some **reactivity** (attempting to reduce costs of disasters). Notice the double role of insurers, they are even investors. Their investment strategies should address “climate change”, perhaps including a positive evaluation of companies active in this area, and a negative evaluation of investment targets with no or negative plans. One negative action is to support organisations that fight regulations or deny that humans play a role in climate change.

The above 40 insurers have already chosen sides in the climate debate, probably assisted by their able **actuaries**, risk evaluation specialists with top mathematical education.

There are arguments in the opposite direction, and it is good ethics to hear them. But the evidence is pointing in the direction of climate change and the resulting extreme weather is active around the world – most of us have seen manifestations. The decision is, should we act now, or wait till we know more? If your house is about to be flooded, you don’t wait till it has happened. You start action at once.¹ In ethics, you (sometimes) have to act early on insufficient information, more on this in chapters 2 and 3.

Another way to avoid trouble is to follow standards. This has been unpopular, and Margaret Thatcher was hailed for reducing regulation, for instance in the North Sea. But when 167 people died in the Piper Alpha disaster 1988, her reputation was tarnished. A report after the disaster pointed out that it could have been avoided with a few and cheap preventive measures (Paté-Cornell 1991). Indeed, Paté-Cornell 1985 suggested what should be done.

¹ Your author’s house was flooded in 2007, and again in 2012.

Some say that problems following from deregulation in the North Sea were partly a reason for Thatcher's fall.

However, this and other disasters, and failures to clean up disasters, did not reduce the popularity of the anti-regulation movement. Unfortunately, it has reached academia, and only two books have been found mentioning standards (Brunsson 2000, Hall 2003). It is not part of any known business school curriculum, although Hall 2003 has very good arguments for the importance of standards (limited to one chapter).

One standard, ISO 20000, targets computer **disasters**, how to avoid them, and how to recover when they occur. The method can be used for general disasters, for oil rigs, railways, cities, roads, but is not well known outside computing.

A standard for **risk management**, ISO 31000 is highly appropriate today, but again is not widely used.

This leads to financial disasters, a topic in chapter 2. They can be characterized by belief in some system or tools, without ever checking with reality. A part of ISO 20000 disaster planning is to test, apparently finance houses tested very little, and the countries where the houses operated tested less. A rather thorough study of the US finance market (Fabozzi 2008) concludes: "Current risk management tools are considered to be inadequate in terms of their ability to predict severe events, such as those of July-August 2007". The book itself (dated 11 April 2008) did not predict the Autumn 2008 disaster.

One part of the belief system was implemented in the USA, the UK and the Republic of Ireland. The countries bailed out the failing banks with taxpayer money. The reader knows well how the banks showed gratitude, by awarding themselves bonuses and resisting regulation.

In ethics texts there seems to be little consideration of **risk**, **safety** and **quality**. But the cases in chapter 2 will show dire consequences of poor risk assessment, ignoring security and indifference to quality. Besides, some of the offenders had multiple issues, showing risky behaviour as part of a culture. Unfortunately, shades of this may be taught in economics, criticized by McPhail 2009 and Locke 2009, 2011.

A book on US government appears to see even **productivity** as an ethical issue (Madsen 1992). That productivity should preferably be within borders of acceptable risk and security, both for staff and citizens. But the book brings in another concern, the US Constitution. Some key office holders must take an oath to uphold the Constitution. But that supported slavery for long, and is not clear on other human rights issues. Privacy is supported, but the US laws are weaker than European (later in this chapter). So, what does productivity mean in this context?

However, the book succeeds in highlighting productivity, and perhaps in a more general sense, **creativity**. The bureaucrats should work hard. Probably this also means that they should work well, hopefully a corollary. Government plans, targeting areas like ecology or industry, should not only be comprehensive, but also smart, to achieve positive results on behalf of the population.

Another issue in Madsen 1992 is **professionalism**. How can that coexist with external restrictions on behaviour? This will be further elaborated in chapters 3 and 5.

In general this points to **compliance**, how to assess standards, select some and meet their requirements. To be fully compliant on everything is in general impossible, but it may be prudent to comply on more than is specified by law. Laws normally have to be observed,

likewise accounting rules. But both have issues, for instance slowness. Better accounting rules are discussed (UN 2012), but they need years to implement.

In the mean time, perhaps one should make a good job out of what we have? Accounting fraud looks bad to investors, in some cases it means that the basis for their investment decision is wrong.

The banana producer Dole was for many years sued by employees. A Swedish film team documented the situation in 2009. However, the Swedes were soon sued, because Dole maintained that they contributed to fraud, claiming that the employees were faking. The nematicide DBCP was at the centre of the controversy, and was later forbidden. Workers had no warning of the hazards of DBCP (Boix 2012). Boix 2012 also comments on the odd court proceedings under a Judge Cheney, where Dole asked that their 27 witnesses “be protected” and succeeded, thus no meaningful cross-examination was possible.

In addition to a law suit, the Swedes were subjected to a PR campaign, and even direct threats. They persevered, and were backed by a blogger who observed Dole products at the hamburger chain, Max, a competitor to McDonald’s. He informed Max of the treatment of the film people, and Max canceled orders to Dole. The case ended up in the Swedish Parliament, where the film was shown. The result was that all parties backed the film maker. In the mean time the workers won their case, but a full settlement is not yet reached. The film about the film, *Big Boys Gone Bananas*, is recommended.

This unfortunately shows some of the state of ethics, that big organisations can usurp law, dominate media and make threats. Worker rights were overridden, as were consumer concerns. Freedom in this context was interpreted as the right for the strong to do what it pleased. Besides, this is a good example of what may be called “death wish”, Dole may have known that they could not continue, and stand to lose billions. Unfortunately, there are many similar examples in chapter 2.

This section can be summed up as compliance, with some foresight added. But this is not all of ethics, as will be shown.