Klaus M. Leisinger[1] February 2010

For the globalization of economic activity to lead to universal
and sustainable prosperity, all those who either take part in
or are affected by economic activities are dependent
on a values-based commercial exchange and cooperation.

General Declaration towards a Global Business Ethos

Business Ethics by Manager Ethics

Understanding the writings on the wall

The flood of reports on the financial and economic crisis of recent months has not only evoked, but can be seen as a sign of, an escalating loss of trust in the market economy and in its major actors. This is demonstrated unanimously in the following four views:

- The *Harvard Business Review*, normally not an organ that is given to suggesting sociopolitical reforms to the management of large companies, identifies as Trend 3 in “ten trends you have to watch”: “Trust in Business is running out”. The article refers to surveys by Edelman (The Edelman Trust Barometer), which indicate that 62% of adults in 20 countries placed less trust in companies in December 2008 than they did a year before. The *Harvard Business Review* then asks “Why should this concern strategists?” and offers the answer: “Because a low-trust environment makes everything about doing business more difficult.” It therefore recommends:

  > “The strategic imperative for most companies is to do what they can to regain the trust of stakeholders and to more effectively manage relationships with them. This starts at the top. Corporate leaders need to demonstrate to civil society that they understand popular and political concerns related to executive compensation, risk management, board oversight, and the treatment of employees facing layoffs. Regaining trust also means dispensing with the view that the only objective of management is to increase shareholder value. Broadening the list of key stakeholders to include employees, customers, suppliers, communities, the press, unions, government, and civil society will help companies to rebuild credibility.[2]”

  The same edition of the *Harvard Business Review* publishes an article entitled “Shareholders First? Not so fast…”, which shows the exclusive concentration of management on increasing *shareholder value* does not lead to long-term success in many cases, but simply allows companies to look good in the short-term and on the surface:

  > “Shareholder capitalism (…) doesn’t motivate or engage the workforce in a way that engenders high performance (…). Customers, for their part, care about the quality of the goods and services they’re getting and how they’re being treated – not about stock price. And suppliers seek partnerships based on trust and mutual commitment for the long term, not share appreciation.”[3]

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1 Klaus M. Leisinger is President and CEO of the Novartis Foundation for Sustainable Development. (www.novartisstiftung.org).
2 Harvard Business Review, July-August 2009, p. 57.
3 Harvard Business Review, July-August 2009, p. 91.

The *Harvard Business Review* comes back to the debate from another perspective in its first edition 2010: Roger Martin criticizes shareholder value driven capitalism to be based on a flawed logic, tempting CEOs to make moves that are focused too much on what is profitable in the short term. With reference to the Johnson & Johnson "Credo" and a comprehensive understanding of "customer" Martin demands to make a shift to "customer-driven capitalism."[4]

- In an editorial on the first page of its business section, the *Frankfurter Allgemeine Zeitung* (*FAZ*) -- likewise not a newspaper known for hostility to business -- criticizes business schools for their inappropriate training models because they are too much slanted toward short-term increases in profit. With this argumentation the German elitist newspaper takes up an argumentation that was initiated by Sumantra Ghoshal[5] and Rakesh Khurana[6]. The newspaper heaps praise on a Hippocratic-style "MBA Oath" for Harvard Business School graduates, which includes a raft of pledges, such as "I will act with utmost integrity and pursue my work in an ethical manner." It goes on criticizing wrong incentive structures and the fact that a great many employers still tend to promote those people who are best at toeing the line. Out-of-the-box thinkers are frequently seen as troublemakers.[7]
- Researchers from the UN think tank known as the Millennium Project list 15 key global challenges for the future. In this list, the role of "ethical market economies" in helping to reduce the gap between rich and poor appears in seventh position – behind the problem categories of climate change, provision of clean water, population growth versus dwindling resources, authoritarian regimes, short-termism of policymakers and the digital divide, but ahead of the threat of new disease pathogens, terrorism, weapons of mass destruction and organized crime.[8]
- The 2009 Edelman Trust Barometer reports that confidence in CEOs has hit a new low globally and stipulates that „Business must make fundamental changes if it is to regain the license to operate (...) rebuilding trust requires business to think and communicate differently, to partner with governments and NGOs, to be transparent by speaking publicly about goals, and then document successes and failures."[9]
- Last but not least, various passages in the social encyclical *Caritas in Veritate*, published in July 2009, also take a clear stand on the subject of business and manager ethics:

    - "Profit is useful if it serves as a means towards an end that provides a sense both of how to produce it and how to make good use of it. Once profit becomes the exclusive goal, if it is produced by improper means and without the common good as its ultimate end, it risks destroying wealth and creating poverty." (21)
    - "Economy and finance, as instruments, can be used badly when those at the helm are motivated by purely selfish ends. Instruments that are good in themselves can thereby be transformed into harmful ones. But it is man's darkened reason that produces these consequences, not the instrument *per se.* Therefore it is not the instrument that must be called to account, but individuals, their moral conscience and their personal and social responsibility." (36)

Of course these ideas are not completely new – they have been an integral part of the debate on business and corporate ethics for many years. What is new, however, is that

[4] Harvard Business Review, January – February 2010, pp. 58 – 65.
[5] Ghoshal S.: Bad Management Theories are Destroying Good Management Practices. In: Academy of Management Learning & Education Vol. 4 (2005), No.1 S. 75 – 91:
[6] Khurana R.: From Higher Aims to Hired hands. The Social Transformation of American Business Schools and the Unfulfilled Promise of Management as a Profession. Princeton University Press, Princeton und Oxford 2007
[7] Frankfurter Allgemeine Zeitung, Tuesday, 23 June 2009, no. 142, p. 11 (Wirtschaft).
[8] Millennium Project: State of the Future 2009, New York 2009.
[9] http://www.edelman.com/trust/2009/ p.3

opinions on these subjects are being voiced in quarters where they were not so clearly heard in the past, if at all. There could be more to this than a temporary mood arousal by the present financial and economic crisis. We could find ourselves in a situation that is in line with a metaphor my friend Vittorio Hösle used many years ago in the context of the ecological crisis: "When you are standing in the middle of a frozen lake, it is not enough to recognize the danger you are in by the cracking of the ice under your feet; you have to find ways to escape the danger. And even if you are surrounded on all sides by swathes of fog, philosophy may still hope to recognize terra firm through the light it casts; it may perhaps point in the direction one has to go – a direction which cannot then be backwards if the way back is longer than the way forward."[10]

Knowledge of moral conduct, in business or in other spheres of human life, has always been accessible to anyone who cares.[11] Roughly speaking (and leaving aside the regulatory aspects of the issue), there are two levels of approach towards improving the moral quality of corporate activity: the *institutional level* (i.e. corporate ethics defined by rules and norms of moral conduct and the establishment of a congruous governance structure) and the *personal level* (i.e. virtuousness of managers and their capability of moral reflection and of demonstrating *moral leadership*.[12]

In the following paragraphs I will try to give examples of what can be done on both levels, but in particular on the individual level, to ensure that the quality of corporate activity meets moral criteria.

The company as a collective moral actor

Companies, as Thomas Donaldson aptly remarked, are an unusual entity in moral terms: they have neither behinds that can be kicked nor a soul that can be damned. They have no conscience to rob them of their sleep and no body that can be sent to prison.[13] Nevertheless are companies "legal entities" and thus have certain rights and obligations, including moral ones. They can be prosecuted for past illegitimate actions of managers who even no longer work in the company or are no longer alive. Corporations can be hold liable for offenses committed by their employees.

Traditional moral philosophy refers almost exclusively to actions and omissions of individuals – they are the moral subjects. However, today's corporate landscape and

10 Hösle V.: Philosophie der ökologischen Krise. Moskauer Vorträge, Beck'sche Reihe, Munich 1991, p. 16. (Translation KML.)

11 For an introduction, see Leisinger K.M.: Unternehmensethik. Globale Verantwortung und Modernes Management. C.H.Beck, Munich 1997; Steinmann, H., Löhr, A. (ed.): Unternehmensethik. Verlag C.E.Poeschel, Stuttgart 1989; Wieland J.: Die Ethik der Governance. Metropolis Verlag, Marburg 1999; Wieland J.: Governanceethik und Diskursethik – ein zwangloser Diskurs, Metropolis 2007; essential reading: Ulrich P.: Integrative Wirtschaftsethik. Grundlage einer lebensdienlichen Ökonomie. 4th edition Bern 2008; also Donaldson T., Werhane, P.: Ethical Issues in Business. A Philosophical Approach. Pearson, Prentice Hall 2008; Crane A., Matten D.: Business Ethics, Oxford University Press, 2nd edition 2007; De George R.T.: Business Ethics. New York (Macmillan) 4th edition 1995 and De George R.: Competing with Integrity in International Business. Oxford University Press, New York 1993 and Donaldson T., Dunfee T. W.: Ties that Bind. A Social Contracts Approach to Business Ethics. Harvard Business School Press, Boston 1999.

12 As defined by Josef Wieland: Die Tugend kollektiver Akteure. In: Wieland J. (ed.): Die moralische Verantwortung kollektiver Akteure. Physica-Verlag, Heidelberg 2001, p.24. See also Wieland J.: Die Tugend der Governance, (Metropilis) Marburg 2006.

13 Donaldson Th.: Corporations and Morality. Prentice-Hall, Englewood Cliffs 1982.

the global economy are characterized by a high degree of complexity, a pronounced division of labor and also an enormous density of interaction. The interplay of these factors means that the application of ethical concepts related to individuals is no longer sufficient: the marked division of labor and responsibilities in relation to narrowly defined spheres of influence can lead to a situation where every single action is ethically neutral *per se*, but the combined result could be a collective irresponsibility that can no longer be attributed to the individual acting in isolation. In my experience high-publicity damages to people and the environment are not usually caused by unscrupulous perpetrators but most often the cumulative result of many years of minor deficiencies and undesirable developments that were accepted because they were below the threshold of attention or intervention.[14]

Today, most people in modern societies attribute substantially broader and deeper responsibility especially to large international companies than they did 20 or 30 years ago. They expect “good” companies not only to maintain and increase their economic, technical and scientific expertise, but also to be socially aware and act according to higher moral standards. In view of their ability to mobilize and harness human, financial, scientific and technical resources, and the higher social, economical and ecological impact their activities can have, companies must be hold more strictly accountable than individuals.[15]

Although the human body consists of many different cells, each person represents infinitely more than the sum of those body cells’ characteristics. The same applies to companies and their employees. Organizations are better able than individuals to do different things simultaneously with the same degree of attention; engaging themselves, for example, not only in their operational activities, but also in the constitution, modification and discursive explanation of the moral standards that guide their operations. There are two sides to the central aspect of corporate morality: one consists in integrating moral aspirations and values into the corporate mission, the other consists in establishing every conceivable institutional framework to ensure that corporate decision-making is informed not only by the business variables, but also by normative variables, e.g. social acceptability, ecological sustainability and respect for human rights.

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14 There have been isolated cases of top management being aware of such deficits but, whether out of opportunism or under imagined pressure of time or pressure to act, ignoring them in spite of warnings from internal experts. One crass example among many is the problem of the cold-induced brittleness of the “O rings” that were ultimately responsible for the astronauts in the Challenger spacecraft. See Russel P. Boisjoly, Ellen Foster Curtis, Eugene Mellican: Roger Boisjoly and the Challenger Disaster: The Ethical Dimensions. In: Journal of Business Ethics Vol. 8 (1989), pp. 217-230; Patricia H. Werhane: Engineers and Management: The Challenge of the Challenger Incident. In: Journal of Business Ethics Vol. 10 (1991), pp. 605-616; Joseph R. Herkert: Management's Hat Trick: Misuse of "Engineering Judgment" in the Challenger Incident. In: Journal of Business Ethics Vol. 10 (1991), pp. 617-620; and also Thomas W. Norton: Understanding Professional Misconduct: The Moral Responsibilities of Professionals. In: Journal of Business Ethics Vol. 10 (1991), pp. 621-623. The case of Jayson Blair at the New York Times can be cites as a “textbook example” of the loner with criminal energy whose misconduct failed to show up early enough on the radar screens of management.

15 Hans Geser drew attention to this aspect early on; see Geser H.: Organisation als moralische Akteure. Ein Thesenpapier. In: Arbeitshefte für ethische Forschung, no. 21, Zurich April 1989, p. 33 et seq.

The degree to which companies can be seen as moral actors depends on a number of different factors.[16] The freedom of action granted to a company's employees by its governance structure (including sanctions-based control mechanisms and incentives) plays the key role here, because this structure defines accepted modes of action and ultimately also the corporate culture. It also creates predictability and trust within and outside the company. Nevertheless, there is also empowerment and decision-making authority that increases with every level of the hierarchy; this again provides the possibility to take personal responsibility and act according to own moral insight. Only in organizations where people are free to decide between several options for action within the sphere of their professional duties and legal and legitimate boundaries can individuals be held accountable. If individual freedom of action does not exist or is minimal, the corporate governance structure is subject to ethical analysis

The most important elements of modern integrity and compliance management based on principles and values (in the sense of the "incorporation of moral values and rules in precisely defined regimes of control within and between companies for specific transactions"[17]) are the nature of the organizational structure and the management principles of the organization, the quality of the personal codes of action and behavior, as well as the corporate guidelines for responsible conduct in morally sensitive, incentive-related areas. It is especially important for their quality and relevance of application that these standards are worded in comprehensible language that is free of legalese. Fully integrated systems of targets and incentives, as well as training in the proper application of corporate standards and consistent decision-making processes are of particular importance for an integrity management program. Finally, monitoring, reporting, an ombudsperson and audits are part of the package for the establishment, promotion and life of an ethical corporate culture.

With the aid of these tools, those behaviors that are regarded in the company as legitimate can be filtered out of the infinite number of theoretically possible behaviors and set forth in a set of rules.[18] Today, the recommendations for institutionalizing integrity und compliance in corporations, as laid down in Chapter 8 of the US Federal Sentencing Guidelines, are regarded as state of the art.[19] To offer coherent incentives, bonus and promotion systems, it is important to enrich performance goals and appraisal criteria with ethical aspects. Analysis of many corporate scandals (not least in the most recent financial crisis) indicates that structural factors such as inappropriate incentive systems and other systemic driving forces, as well as the neglect of context factors, exert enormous pressure on employees in companies so that they may disregard moral norms.[20] Under such circumstances, simply pointing the finger at the misconduct of individual actors would not do justice to the problem, because corrections built on this analysis would leave the actual, systemic factors unresolved.

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16 See Wieland J. (ed.): Die moralische Verantwortung kollektiver Akteure. Physica-Verlag, Heidelberg 2001, in particular the contribution by Maring M.: Verantwortung von Korporationen, pp. 103-145.

17 Wieland J.: Die Ethik der Governance, Metropolis, Marburg 1999, p. 8.

18 See Fürst M.: Grundprinzipien und Gestaltung eines nachhaltigen Integritätsmanagements. In: Wieland, J. / Grueninger, St. / Steinmeyer, R. (eds): Handbuch nachhaltiges Compliance-Management. Berlin, Erich Schmidt Verlag ESV, 2009.

19 http://wwwussc.gov/2007guid/8b2_1.html

20 See Fürst M.: Risiko-Governance. Die Wahrnehmung und Steuerung moralökonomischer Risiken. (Metropolis) Marburg 2005.

However, a company's governance structure and the various elements of governance do not just appear out of the blue. Guidelines, codes of conduct and organizational and management structures are the outcome of reflection in terms of their importance by *people*, who unequivocally define and formulate their content and ultimately implement them in day-to-day practice. The personal constellation of values, i.e. the ideals, evaluation standards, assessment criteria and also the norms of the most senior managers define the moral resilience of a company's governance. In other words, they specify behavioral preferences and boundaries that are applicable in business. Value based management, however, does cost money (e.g. for due diligence programs, qualifications and further training, social contributions or preferential prices for low-income groups) and needs *added investments* (e.g. in environmental protection), without being immediately compensated by a directly measurable return. Even a return on ethical investment of a non-monetary nature, such as public recognition by politicians, the media or representatives of civil society, does hardly ever materialize for "good* corporations.[21] In my opinion, public perception of large international companies tends to be negatively biased and stereotyped.[22] Under these circumstances, the ethical quality of actions by the institutional actor we call a "company", i.e. its willingness and ability to implement moral norms in day-to-day business operations, depends almost exclusively on the value-based decision and determination of the top-management.

To avoid the "wheel" having to be constantly reinvented, use should be made not only of the knowledge on business ethics and models of corporate responsibility that exists in the pertinent literature, but also of the numerous examples of good practice that can be found on the internet. However, they should only be used as an impetus to reflect on one's own specific needs. Generic concepts can always only serve as a guide. Even the essential pillars of the *General Declaration towards a Global Business Ethos,* non-violence and respect for life, justice and solidarity, truthfulness and tolerance, as well as mutual respect and partnership need to be "translated" into what they should mean in everyday business life.

The 10 principles of the UN Global Compact (UNGC) – which represents the corporate responsibility concept most widely accepted internationally – can also have very different specificities in practice depending on the priorities of the management. Management responsibility begins with asking the "right" questions – in this case e.g.: What is our role in society? How are the UNGC principles translated into internal guidelines for employees? What specific imperatives to act or desist from action result from these principles? How narrowly or broadly do we define key terms such as "sphere of influence"? What specific consequences do the two human rights principles have for business policy? How can we implement our normative convictions into practical business actions? Ultimately, these and many other questions must not only be asked, but also answered by the top management of a company. The people working there do this not only as a consequence of their specialist knowledge and their

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21 This statement applies only to the external sphere – as regards the internal sphere there is empirical evidence of clearly measurable positive changes, such as the motivation of employees, their commitment or attractiveness of the employer.

22 See e.g. Laufer Green Isaac (2004) Hidden Agendas: Stereotypes and Cultural Barriers to Corporate-Community Partnerships; Linda Merieau: The Human Factor: Addressing United Nations Staff Perceptions of the Business Community when forming Cross-sector Partnerships In: Journal of Corporate Citizenship Issue 31 (Autumn 2008) p. 23 et seq.

material skills, but also in light of their value-based premises, their social conscience, their social skills and their moral creativeness, which also empowers them to think “outside the box”.

And this brings us to the individual and his or her “ethical musicality”.

People in companies are the essential moral actors

No company acts only as an abstract legal institution, but always through the many different people working at different levels of the hierarchy. This is the reason why social systems such as companies per se can only be moral or immoral to a limited extent: morality – or lack of morality – is introduced to a social system by the people, their values and level of integrity. Companies are only subject to normative controls by real people. Needless to say, every kind of organization develops its own institutional life and its specific culture – and of course this means that inherent in every decision within an institution is an important element of heteronomy that arises from the specified institutional context, e.g. the corporate culture and the resulting management behavior. The corporate culture impacts on the individual actors. But this does not lessen their responsibility –they play an essential part in helping to shape this culture; they define the legitimate scope of action in management committees. The ultimate decision on a specific action or omission is always an individual moral decision. Thus the *people*– in whatever institutional setting – have to be held responsible as moral actors. The extent to which this responsibility can be met without moral heroism in a morally insensitive setting depends on the quality of the governance elements mentioned above.

Needless to say, this does not “only” apply to members of top management by any means. Employees at all levels of a company have specialist knowledge, professional experience and social skills. They themselves are thus also under an obligation to take responsibility for the people affected by their decisions and for the achievement of the corporate objectives. From an ethical perspective they also have an obligation to stand up for their moral convictions. There is very little evidence of purely a “just following orders” mentality within companies.[23] Barbara Kellerman provides compelling arguments that an exclusive focus on established superiors neglects the fact that “followers” have a significant impact on corporate culture and can influence leadership “from below”.[24]

Anyone who wants to exert moral influence can do this and is therefore in a position to raise the ethical quality of group decisions.[25] Of course, it is easier for individuals to

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[23] Bazerman M.: Evaluating your Business Ethics: A Harvard professor explains why good people do unethical things. In: Gallup Management Journal online, June, 2008, p. 1 – 5; Jones Th.M., Gautschi F.H.: Will the Ethics of Business Change? A Survey of Future Executives. In: Journal of Business Ethics, Vol. 7, No. 4, 1988, pp. 231-248.

[24] Kellerman B.: Followership. How Followers are Creating Change and Changing Leaders (Harvard Business Press) Boston 2008;

[25] White D. / Lean E.: The Impact of Perceived Leader Integrity on Subordinates in a Work Team Environment. In: Journal of Business Ethics, Vol. 81, No.4 (September 15, 2008), pp. 765 – 778; Posner B.Z.: Individuals’ Moral Judgement and its Impact on Group Processes. In: International Journal of Management, Vol. 3, No. 2, June 1986, pp. 5-11. Nichols, M.L./Day, V.E.: A comparison

claim morally justified actions as they are encouraged by the internal governance systems. But as a rule, individual possibilities of contradicting moral impositions are considerable, without having to suffer unacceptable personal pressure. In most cases, then, it remains possible for people *to behave differently* than a thoughtless *cosi fan tutte* “culture” might suggest – in most cases, the reference to “systemic constraints” is most likely a self-imposed “constraint of the mind”.

Management elites in all institutions, however, always have a particular responsibility – also in companies. The particular responsibility in companies consists of value creation and profitability while doing business with integrity. By virtue of their authority, however, the members of top management in particular have a decisive, non-delegable influence on the values structure and moral culture of the company.[26] The members of top management set and communicate the right “tone” and inspire others as a role model for good personal and corporate conduct. They send out signals – for example by signing the *General Declaration towards a Global Business Ethos* – both within and outside the company to show that ethical concerns are important and that they are concerned with things that go beyond the day-to-day routine and are of importance beyond the economic sphere. As a result, management elites have immense influence on the creation of a coherent “moral community” – this is true in the widest variety of cultures.[27] In this regard, the executive committees and their chairpersons have a major responsibility.[28]

The members of top management also play the central role in matters of corporate responsibility, because they have the task of introducing morally sensitive governance structures to set up the collective actor we call the “company” in such a way that individuals can act morally – precisely when they are under time pressure and face limited resources, moral dilemmas and high levels of uncertainty – without possibly having to become “tragic” moral heroes. They meet this responsibility by deciding whether

- the *corporate purpose* and *mission* are holistically defined, i.e. comprise more than just the business sphere;

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of moral reasoning of groups and individuals on the “defining issue test”. In: Academy of Management Journal. Vol. 25, 1982, pp. 201-208.

26 See Ardichvili A., Mitchell J., Jondle D.: Characteristics of Ethical Business Cultures In: Journal of Business Ethics 2009, Vol. 85 (4), p. 445 et seq., Thomas T., Schermerhorn Jr. J., Dienhart J.: Strategic leadership of ethical behavior in business. In: Academy of Management Executive (serial online). May 2004; vol. 18 (2), pp. 56 – 66; and also Ciulla J.B., Price T.L., Murphy S.E. (Eds.) The Quest for Moral Leaders: Essays in Leadership Ethics (Barnes & Noble) Cheltenham 2005.

27 See Resick C., Hanges P., Dickson M., Mitchelson J.A.: Cross Cultural Examination of the Endorsement of Ethical Leadership. In: Journal of Business Ethics (serial online) February 15, 2006, Vol. 63 (4), pp.345-359, and also Sama L., Shoaf V.: Ethical Leadership for the Professions: Fostering a Moral Community. In: Journal of Business Ethics (serial online) March 2008 Vol. 78 (1/2), pp. 39-46 and Schwartz M., Dunfee T., Kline M.: Tone at the Top: An Ethics Code for Directors? In: Journal of Business Ethics (serial online) April 15, 2005, Vol. 58 (1-3), pp. 79-100.

28 See Caldwell C., Hayes L., Bernal P., Karri R.: Ethical Stewardship – Implications for Leadership and Trust. In: Journal of Business Ethics (serial online) March 2008, Vol. 78 (1/2), pp. 153-164 and also Chun R.: Ethical Character and Virtue of Organizations: An Empirical Assessment and Strategic Implication. In: Journal of Business Ethics (serial online) March 30, 2005, Vol. 57 (3), pp.269-284.

- the *codes of conduct*, which make it clear what values the employees should live by when they go about their work, cover all relevant fields of action in their content and use a wording that is unequivocal and capable of being practiced;

- the *corporate guidelines* for activities in sensitive areas likewise cover all relevant fields of action and are worded in such a way that compliance with the guidelines can be unequivocally measured;

- *objectives* and *performance appraisal processes* cover not only business-specific, scientific and technical criteria, but also ethical criteria; *everything* that *is defined as legitimate acti*vity is also implemented in day-to-day business using the known tools of *compliance management*.[29]

With the decisions taken as a result, they define the identity of "their" company as moral actor and the moral nature of the processes in the company's day-to-*day life. Of particu*lar importance in times of globalization is the company's sensitivity to the difference between national legality in a particular country and what is perceived as legitimate in most modern societies. Discrepancies of this kind have been – and are repeatedly – cause for reputation-damaging criticism of companies. Filling the space between legality and legitimacy in a constructive way is one of the most important tasks of ethical management.

The credibility of these governance elements, of the top management and the whole company depends on whether the words are also followed by corresponding actions. Inconsistencies between value statements and actual deeds have fatal consequences on the morale, the satisfaction and motivation of the staff.[30] The balance of the last few years shows dozens of examples in which discrepancies between the "talk" and the "walk" and also the ignoring of brilliantly formulated internal guidelines and control processes led not only to widespread cynicism, but ultimately also to the bankruptcy of once highly respected companies. Exemplary management behavior consists not only in defining and communicating the structure of the basic values and creating appropriate tools with which they can be implemented in practice, but also in setting an example through one's own coherent and consistent actions. Where managers succeed in creating an atmosphere of trust, employees are able to speak about ethical problems and dilemmas and make suggestions to resolve them. This can substantially reduce whistleblowing.[31]

The proposition to entrust only "good" people with management responsibility sounds sensible, but does not get us much further in practice. I assume that the Gaussian distribution of people in companies does not differ essentially from that of individuals who work elsewhere, and that people normally join a company long after their primary and secondary socialization. We will find a few "saints" and "geniuses" at one end of the normal distribution curve and a few "rogues" and "idiots" at the other end and – in

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29 On the great importance of compliance management, see Tyler T., Dienhart J., Thomas T.: The Ethical Commitment to Compliance: Building Value-Based Cultures. In: California Management Review (Serial online) February 2008. Vol. 50 (2), pp. 31 – 51.

30 Davis A., Rothstein H.: The Effects of the Perceived Behavioral Integrity of Managers on Employee Attitudes: A Meta-Analysis. In: Journal of Business Ethics (serial online) September 15, 2006, Vol. 67 (4), pp. 407 – 419.

31 See Leisinger K.M.: Whistleblowing und Corporate Reputation Management. Rainer Hampp Verlag (sfwu, Schriftenreihe für Wirtschafts- und Unternehmensethik), Munich and Mering 2003.

between – those “average people” who shape our society. It is therefore also part of good governance to expect “the average defects of people”, as Max Weber puts it in his essay “Politics as vocation”.[32]

The only possibility of making a “top company” out of an ethically “average company” lies in developing the management personnel, the selection criteria and the promotion practices in such a way that as large a number of managers as possible are recruited from the right end of the normal distribution curve. The requirements that people entrusted with important positions should fulfill are known since more than 2500 years and can be found in many classical texts. They should be personalities of integrity and not simply specialists in their own field, people who stand out from the “average person” in terms of numerous characteristics:

- Intelligence, trustworthiness, humaneness, courage and perseverance;[33]
- A wise sense of reason, justice, honesty, courage and prudence;[34]
- Passion for the cause, a sense of responsibility for the consequences of their own actions in the interest of the matter in hand and also a sense of proportion in the sense of the ability to consider realities as they are while retaining inner calm and composure and to preserve the necessary distance to things and people;[35]
- Mindfulness with regard to the concerns of those affected by decisions, fairness, social skills, civil courage, ability to learn and the ability to change one’s mind when deeper understanding leads to better insights[36] – perhaps also charisma in the sense of Augustine, who maintained that what you seek to inflame in others must burn inside you;
- Amongst the many „transactional flaws“ that Marshall Goldsmith was confronted with in his long professional career as a coach of top managers was „not listening” (described as “the most passive-aggressive form of disrespect for colleagues”).[37] “Not listening” in combination with „punishing the messenger“ and „passing the buck“ keeps important information and critical feedback away from leaders – a fact that results in „blind spots“ about crucial incidents in their social environment, and finally also
- Moral imagination, i.e. the ability also to view situations from a completely different perspective, strength of character to avoid the “group think” phenomenon[38] and to

32 Weber, M.: Politik als Beruf. In: Weber, M.: Gesammelte politische Schriften. J.C.B. Mohr, UTB (Paul Siebeck), Tübingen, 5th edition 1988, p. 551 et seq.;

33 See e.g. Sun Tzu: The Art of War. (Shambhala), London 1991, p. 4 (written around 500 BC);

34 Plato: Der Staat (Politeia). DTB, Artemis (Bibliothek der Antike), Munich 1991 (written around 400 BC);

35 Weber, M.: Politik als Beruf. In: Weber, M.: Gesammelte politische Schriften. J.C.B. Mohr, UTB (Paul Siebeck), Tübingen, 5th edition 1988, p. 551 et seq. (given as a lecture in Munich in 1919);

36 See also Leisinger K.M.: Unternehmensethik. Globale Verantwortung und modernes Management, (C.H. Beck), Munich 1997, pp. 141 – 174;

37 Goldsmith M.: What Got You Here Won’t Get You There. (Profile Books) London 2008, S.40f and 147ff, see also Johnson C.E.: Meeting the Ethical Challenges of Leadership. Casting Light or Shadow (Sage), Thousand Oaks / London / Singapore 2009, S.245ff.

38 See Leisinger K.M.: Unternehmensethik. Globale Verantwortung und modernes Management. C.H.Beck Munich 1997, pp.149 – 155; for in-depth reading: Janis I.L.: Groupthink. Psychological Studies of Policy Decisions and Fianscoes, Houghton Mifflin. Boston, MA, 1982;

re-evaluate things, even if the customary anecdotal “evidence” in the company (“we’ve always done it that way”, “what’s that got to do with us?”) appears to suggest routine procedures.[39]

It is the values of the management elite that determine how the company and its role in the social setting are defined; it is the value-based premises and personal virtues of the managers that determine the selection of those options for action which are regarded as legitimate and insist on them being put into practice. It is the personal and personnel-specific value-based thinking that determines what approach, selection and criteria of assessment are given preference when faced with problems that need to be resolved and what is considered to be important, desirable, good or bad. From my practical experience stretching back over 30 years, the personal value-based premises of top management, the social awareness and the civil courage also to stand up for one’s own convictions in face of a “head wind” were the most important determinants for the ethical quality of a company. This makes the personnel-specific virtues of managers and the whole workforce the most important resources and competencies of a company – along with its specialist knowledge. Since there are no ethical questions in companies that do not at the same time also imply present or future restrictions on business activity, top management also has to strike the right balance and make sure it becomes established, as far as possible without friction, through interaction with its stakeholders. Of course, managers with these “ideal” qualities must still be able to achieve the kind profits that are customary in the industry concerned, to develop strategic visions, to act innovatively and adapt to changes, to take decisions and make sure they are acted on and thus to meet the company targets that have been set.[40] Successful work at the top of a company has become considerably more complex with globalization.

C.K. Prahalad reminds managers that they are “...the custodians of society’s most powerful institutions” and that they therefore must “...hold themselves to a higher standard. Managers must achieve success with responsibility.”[41] He recommends his students since 1977 to reflect on a number of remarks “intended to serve as a spur for people to reexamine their values before they plunge into their daily work routines”, e.g.

- Humility in success and courage in failure are hallmarks of a good leader;
- Learn to relate to those who are less fortunate. Good leaders are inclusive, even though that isn’t easy;
- Assume responsibility for outcomes as well as for the processes and people you work with;

39 See Werhane P.H. / Moriarty B.: Moral Imagination and Management Decision Making (Business Roundtable Institute for Corporate Ethics) Darden (University of Virginia), 2009 and the case studies “Ford Pinto” and “Challenger” analysed there;

40 Thus the profile of skills that the Club of Rome considers necessary for “leadership” in modern times: Club of Rome: Die Globale Revolution. Bericht des Club of Rome 1991. (Spiegel Spezial No. 2), Hamburg 1991, p. 109.

41 C.K. Prahalad in his column “The Responsible Manager”, in: Harvard Business Review January – February 2010, p.36

- Expect to be judged by what you do and how well you do it – not by what you say you want to do. However, the bias toward action must be balanced with empathy and caring for other people;
- Be concerned about the problems of the poor and the disabled, accept human weakness, laugh at yourself – and avoid the temptation to play God.

Prahalad's message is, by the way, also an occasion to apply a differentiating judgment on "management schools" and the message they focus on.

Anyone can find out what kind of "stuff" they are made of, those management personalities who steer their companies in a responsible and legitimate way within ethically considered guardrails. But where and how do we find the "ideal type" in real life to fill all those positions in which management responsibility, also of an ethical nature, actually has to be taken? It would seem to be easier to describe than to develop the "ideal type" in the reality of corporate life and then to hoist this type into the right position. The following institutional measures can help to ensure that the selection and development processes (management development) of companies are better adjusted in terms of non-economic requirements.

Normatively "enriched" content of objectives, performance appraisal criteria and incentive systems

In most companies, regular appraisals are held to evaluate the performance of employees. Line managers and their direct reports have an opportunity in these meetings to talk calmly and openly about the achievement or non-achievement of set targets, the quality of the work and all aspects related to work. Targets, performance appraisals and incentive systems are management tools and offer not only the opportunity to talk openly about mutual expectations and anything that might need correction, but also the rational basis for bonus allocations, changes in salary and ultimately also possible promotions. Holistically conceived systems of targets, performance appraisals and incentives also contain normative questions. Instruments of this kind have an influence on the motivation of employees to do or not do certain things; they are therefore very important for employees and companies.

Where companies do not include normative criteria in the content of their objectives, the criteria of assessment and the incentive systems, it would be naive to believe that a great deal of importance is attributed in practice to the ethical dimension of the performance portfolio. People usually make an effort to follow rules, especially where they may lead to better results and personal advantages. In the course of their careers, managers are generally tested for their capabilities in various areas of responsibility. Their income and their further career crucially hinge on *short-term* visible results. *Exclusive* management by quantified economic targets carries the risk of social, ecological or other options for action being neglected in order to meet ambitious short-term business targets.

It is human nature to consider “short and close interests”, as Hans Jonas put it, more important than “long-term and remote obligations”.[42] With incentive and appraisal systems that are insufficiently broad in their conception because they neglect moral aspects, there is a temptation to give priority routinely to what is useful in the short term over what is necessary in the long term, and in ethically ambivalent situations (if they are recognized as such) in favor of one’s own financial or career-oriented advantage.[43] If this is the case, investments on which the performance and also the social and ecological acceptability of the company depend in the long term are either not made or are postponed, because they generate costs in the short term and (viewed superficially) have a negative impact on the balance sheet. The current debate on long-term elements of remuneration, which was triggered by the financial crisis, also merits considerable attention from this perspective.[44]

Where moral conduct and intentions are regarded as a company resource – and not as a restriction in a market environment that neglects morals – upright customs and practices lose their potential irritant nature and competitive disadvantage. Where a social environment sees the introduction of this resource as positive and is prepared to be discriminating in its judgments on different qualities of corporate action, a positive added value emerges for society and the company.

To promote moral business conduct, not only the conventional business and technical performance criteria should be included, but also ethical criteria. These reflect corporate values in terms of integrity and social responsibility. Virtues such as sincerity, trustworthiness or fairness in cooperation with others should be no less important here than the attainment of quantitative objectives.[45]

It is undisputable that child labor or forced labor and other sorts of indecencies must be unequivocally forbidden in one’s own company and among one’s suppliers. However, proscribing such obviously unscrupulous activities, or applying negative ethics (the “Do no harm” principle), is only *one* aspect of appropriate corporate governance – and the simplest one, because here it only requires intelligence and law abidance. It is more difficult “to do good” in a sustainable and credible way, because this calls for complex action based on discourse ethics, social and emotional skills and also affirmative action – but this is difficult to measure in performance appraisals. Since moral integrity, social awareness and interpersonal mindfulness of corporate conduct cannot usually be measured directly and in the short term in monetary units, creativity must be applied to come up with measurement criteria with which behavior can be positively influenced and a balance of interests made achievable.

[42] In his last interview, see: Jonas, H.: Der ethischen Perspektive muß eine neue Dimension hinzugefügt werden. In: Deutsche Zeitschrift für Philosophie, vol. 41, no. 1, 1993, p. 98. From this fact he derived a critical view of democracy e.g. for solving the environmental crisis. Where elections are held every four years, he feels there is a risk that long-term or “remote obligations” are not fulfilled because of the day-to-day interests and near-term interests that need to be satisfied.

[43] See Gellerman, S.W.: Why ´good´ managers make bad ethical choices. In: Harvard Business Review, July-August 1986, pp. 85-90.

[44] See e.g. Hofsteller K. / Hostettler St.: Langfristige variable Vergütungen als zentrale Anreize für Topmanager. In: Neue Zürcher Zeitung No. 190 (19 August 2009), p.25.

[45] See the interview with former Novartis COO Jörg Reinhardt in Ernst & Young (ed.): Entrepreneur. Stuttgart 2009, pp. 64 – 71.

If a company works with holistic incentives, then not only the objective, but also the path towards achieving it must be assessed. Moral norms – counterfactually to what is regarded as desirable in an ideal situation – also have a broader impact the more consistently their observance is monitored and compliance rewarded or breaches penalized.[46] Companies that lay down a “moral law” which is deemed internally binding through their “rules of play” (codes, guidelines for sensitive areas), incentive systems and sanction mechanisms are (better) able to overcome potential conflicts between financial and moral targets. As the breadth of their impact increases, the general problem of the prisoner dilemma is reduced, as is the need for “moral heroism” within the company on the part of those who a priori exclude immoral activities out of an intrinsic, personal motivation.

One way of avoiding short-term pseudo-success could be to break down performance appraisals into short, medium and long-term components where appropriate and feasible. A comparable principle applies when assessing cost behavior. If employees are only measured by the costs they save, there is a risk that cuts will also be made or investments avoided in those areas where e.g. cuts are not permissible because of the negative implications for the health of people or an intact environment. In such cases, the short-term economic benefit would have undesirable long-term consequences for humans and the environment, and often also financial damage to the company later on.

If those people who achieve business success by irresponsible or illegitimate ways and means are promoted or financially rewarded because of their good short-term business performance, signals are sent out within the company that render other efforts to increase the moral quality of corporate activity largely useless. Colleagues and employees look closely at who is given promotion and have a good feel for what appears “worthwhile” in career terms. All corporate moral reflections and obligations derived from these ultimately achieve little if the content of targets, performance appraisal criteria and incentive systems in the company are not structured in such a way that morally sober actions are also worthwhile from an egoistic point of view – in short, if it is ensured that the “good” are not the “stupid” ones. The “moral guidance” then no longer takes place (solely) through the reaction of society or the market to the individual conduct of corporate actors, but through internal accord, company incentives and peer pressure to comply with the “rules of play” that are commonly seen as mandatory.

Ethics training as a compulsory institutionalized part of internal and external corporate learning

It may not be quite plain at first glance why, in addition to the job-specific training and continuing education that a company provides, it should also take on the task of training its people in ethics, which everyone would be expected to bring with them from their home and school education. Where and when complaints are to be made about a lack of moral education of people, then the criticism should be directed at an earlier

46 See e.g. Badenhorst, J.A.: Unethical Behaviour in Procurement. A Perspective on Causes and Solutions. In: Journal of Business Ethics, Vol. 13, No. 9, 1994, pp. 739-745.

stage in the process – at the family and education system[47] and not at companies. But this would be a too narrow approach and would also not be in line with what we know today.

Large companies that operate in different countries, are highly specialized in numerous fields and heavily based on the division of labor are the embodiment of highly fragmented responsibility. It is almost impossible to imagine that a large international company can create and preserve its identity beyond the uniformity of the company logo and the letterhead if not on the basis of shared moral values and norms. The recommendation to companies to reflect on an identity-preserving, moral basis and to pass on accordant values in internal courses is therefore critical. .

To the question whether this effort is also worthwhile, whether the power of moral judgment can be learned at all once primary and secondary socialization have taken place, there is an answer from a prominent philosopher which is not exactly encouraging. Immanuel Kant was known to be rather pessimistic in this regard: "it is not possible to fashion anything completely straight from such crooked wood as Man is made of."[48] As far as the inclusion of ethics in management development is concerned, there are not only many positive reports[49] but also a few negative ones[50]. The thrust of these is that, however well-intentioned later ethics training might be, it can only have a passing and superficial influence, if any at all.[51]

But this does not have to be the case if this training is approached properly; at all events, there has been a "climate change" in the idea of ethics training in companies.

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47 Just as Johann Heinrich Pestalozzi did about 150 years ago.

48 See Kant, I.: Ideen zu einer allgemeinen Geschichte in weltbürgerlicher Absicht. In: Schriften zur Anthropologie, Geschichtsphilosophie, Politik und Pädagogik I. Ed.: Weischedel, W. Werkausgabe vol. XI. Suhrkamp Taschenbuch Wissenschaft, Frankfurt a.M. 1968, p. 41. In the same essay, however, there is a statement which could be taken as a cue for the desirability of further moral training: "We are to a large degree cultivated by art and science. We are civilized, to excess, for all kinds of social pleasantry and decency. But there is still a great deal to be done before we can regard ourselves as moralized." (p. 44).

49 See Coughlan R. / Connolly T.: Investigating Unethical Decision at Work: Justification and Emotion in Dilemma Resolution. In: Journal of Managerial Issues Vol. 20 (20089, no. 3, p. 348 – 365; Frey R. / Sanford J.: Can you Teach Business Students to be Ethical? In: Grand Rapids Business Journal 30 April 2007; also Nelson, D.R./Obremski, T.E.: Promoting Moral Growth Through Intra-Group Participation. In: Journal of Business Ethics, vol. 9, no. 9, 1990, p. 731-739; Johnson, H.L.: Bribery in International Markets: Diagnosis, Clarification and Remedy. In: Journal of Business Ethics, vol. 4, no. 6, 1985, p. 447-455. For arguments for and against, see Waples E. / Antes A. / Murphy S. / Connelly S. / Mumford M.A.: A Meta-Analytic Investigation of Business Ethics Instruction. In: Journal of Business Ethics vol. 87 (2009), pp. 133 – 151.

50 For example, Lane et al. dispute the existence of substantial empirical evidence that ethics training improves moral behaviour and the ethical quality of decisions: Lane, M.S./Schaupp, D./Parsons, B.: Pygmalion Effect: An Issue for Business Education and Ethics. In: Journal of Buiness Ethics, vol. 7, no. 3, 1988, pp. 223-229. Davis and Welton also consider the influence of the institutional environment to be stronger than ethical training for ethical secondary socialization; see: Davis, J.R./Welton, R.E.: Professional Ethics: Business Students´ Perceptions. In: Journal of Business Ethics, vol. 10, no. 6, 1991, p. 451-463.

51 The fact that the consulting markets today offer one "crash course" after another on the subject of "ethics" is therefore all the more unfortunate. A "quick bleach" approach does not do justice to the complexity of ethical problems, nor does it lead to an improvement in the moral quality of actions. It just costs money and generates turnover for the institutes concerned. If training is to be provided, then it must be sustainable, i.e. spread over several training periods, see Callan, V.J.: Predicting Ethical Values and Training Needs in Ethics. In: Journal of Business Ethics, vol. 11, no. 10, 1992, p. 761-769.

As cited in the introduction, the conventional training model of business schools and internal human resources departments, which were too focused on business skills, are coming in for increasing criticism, because it plainly fails to satisfy the complexity of proper and sustainable corporate conduct. Internal courses can make clear in practical terms which values cannot be traded off in day-to-day business – even if they ostensibly appear to be in conflict with practices that are customary in far-off countries. Holistic management development imparts value-based training, in addition to business expertise, and practices this with case studies in concrete, real life situations.

I agree with Albert Schweitzer's view that all reflections on ethics lead to an elevation and enlivenment of the moral disposition of human beings.[52] The knowledge about widely used ethical perspectives – including e.g. utilitarianism, Kant's categorical imperative, Rawls's justice as fairness approach and others - can help to dispel ethical ignorance and thus enhance the ethical capacity of those being exposed to such education. Learning about such theories and applying them in case studies will also raise the understanding about ethical dilemmas and contradicting ethical argumentation.[53]

Therefore, a minimum of value-based training is useful and necessary. But in my experience, moral awareness should be raised by means of annotated "literature homework" with comments and not by lecturing on various philosophical schools starting with pre-Socratic philosophers. Undoubtedly, reading Kant's "Metaphysics of Morals" is an uplifting experience that triggers a great many thoughts, and certainly the statements made there that "the teachings of morality" are binding for all free humans blessed with practical reason, "regardless of individual inclinations and the advantage which can accrue as a result" are correct. And it is certainly also true that "observing the commandments of reason – especially when this includes wisdom – brings greater advantages on average".[54] Lectures of this kind, however, have the disadvantage that the correlation with company practice is usually not appreciated by the "students", because the new knowledge is perceived to be intellectually interesting but disconnected from and thus not relevant to one's own area of responsibility. As a result the aim of sensitization for moral concerns is not achieved.

It may be of help here to combine basic knowledge of ethics with group work on real case studies. In this way, the identification of potential moral problems can be practiced, analysis of the ethical problems (in contradistinction to legal, technical, economic or social problems) can be learned and appropriate decision-making grids can be established.[55] These may be case studies of a constructed general nature[56], but

52 In: Kultur und Ethik. C.H.Beck Verlag, Munich 1960, p. 117.

53 See Johnson C.E.: Meeting the Ethical Challenges of Leadership. Casting Light or Shadow. (Sage) Thousand Oaks / London / Singapore 2009, pp. 137f.

54 Kant I. Metaphysik der Sitten. Werkausgabe Band VIII (Suhrkamp) Frankfurt am Main, 9th edition 1991, p. 320 et seq.

55 See Waples E. / Antes A. / Murphy S. / Connelly S. / Mumford M.A.: A Meta-Analytic Investigation of Business Ethics Instruction. In: Journal of Business Ethics Vol. 87 (2009), p. 146 et seq.; Maak Th. / Ulrich P.: Integre Unternehmensführung. Ethisches Orientierungswissen für die Wirtschaftspraxis (Schäffer Poeschel), Stuttgart 2007. p. 471 et seq.; also Tyson, Th.: Believing that Everyone Else is Less Ethical: Implications for Work Behaviour and Ethics Instruction. In: Journal of Business Ethics, vol. 9, no. 9, 1990, pp. 715-721.

56 As e.g. the "Parable of Sadhu". See Harvard Manager: Unternehmensethik, vol. 1, Hamburg, no year, p. 19-23.

may also be examples of concrete moral dilemma encountered in real business life. In companies that have “moral codes” in place, it should be made clear with reference to business case studies what “compass” is to be applied in dilemma situations. Also extremely valuable are case studies that analyze and reflect on the wrong decisions of others ex post (e.g. in the context of the Challenger accident[57]) or from the past of one’s own company. The mistakes made in one’s own company, critically coming to terms with these mistakes and the lessons and conclusions drawn from them should, wherever possible, be the subject of courses held in one’s own company. This not only helps to avoid a repetition of such mistakes, but also enhances the credibility of the efforts made. Equally well suited are case studies with corporate decision situations which resemble the prisoner dilemma[58]. Finally, case studies in which an morally high-risk corporate decision is broken down into many individual decisions provide an opportunity to show that the moral quality of each specific individual step gives no cause for concern, but when added together can be a problem.

A publication that is as hugely topical as ever is the “veterans article” by Saul Gellerman; in terms of its content, it can be applied to any company and analyzed for the corresponding consequences. Gellermann explored the question as to why “good” managers make “bad” ethical decisions – decisions which ultimately have also been associated with enormous disadvantages for the companies concerned, and in some cases with their ruin.[59] Gellerman’s results show that it is predominantly four perceptions of reality that lead managers to stray from the path of virtue:

- “A belief that the activity is within reasonable ethical and legal limits – that is, that it is not “really” illegal or immoral”.
- “A belief that the activity is in the individual’s or the corporation’s best interests – that the individual would somehow be expected to undertake the activity”. [60]
- “A belief that the activity is “safe” because it will never be found out or publicized; the classic crime-and-punishment issue of discovery”.
- “A belief that because the activity helps the company the company will condone it and even protect the person who engages in it”.

In practice, the behavior which is “just about still” acceptable or where the borderline lies between “clever” and immoral action is often not found out until the borderline has been crossed and the mistake made. Yet in most cases, three simple questions to the managers concerned would be enough to alert them to potential or actual moral problems: Can you plausibly explain your decision to your family or good friends without any effort or cosmetic adjustments? Would you feel comfortable if a news magazine in the press or television reported openly about your decision and its

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57 See Boisjoly, R.P./Curtis, E.F./Mellican, E.: Roger Boisjoly and the Challenger Disaster: The Ethical Dimension. In: Journal of Business Ethics, vol. 8, no. 4, 1989, pp. 217- 230. Werhane, P.H.: Engineers and Management: The Challenge of the Challenger Incident. In: Journal of Business Ethics, vol. 10, no. 8, 1991, pp. 605-616.

58 See Axelrod R.: Die Evolution der Kooperation. (Scientia Nova, Oldenbourg) 6th edition 2005.

59 Gellerman, S.W.: Why ´good´ managers make bad ethical choices. In: Harvard Business Review, July-August 1986, pp. 85-90.

60 To this, Bert Brecht would say: “The opposite of ‘good’ is ‘well-intentioned’.”

background and impact? Could you also accept the decision taken by you as fair and appropriate if it were taken by your boss and you yourself were affected by it? If the person asked starts to ponder, then in all likelihood this is a sign of moral hazard.

With regard to the second set of problems highlighted by Gellerman, there are likely to be concrete experiences in any company from which one's own employees can learn. Gellerman's experience in this regard is the "sad truth" that a lot of short-lived "stars" are promoted before an unfortunate successor has to carry the can for the problems created – making it doubly unfair. Unusually good results that cannot be explained under the existing conditions should therefore always be checked for the circumstances behind their achievement.

As regards the third problem area identified by Gellerman, it has to be said that actually there is always some immoral behavior somewhere that goes undetected. What is perceived to have a low likelihood of detection while offering the possibility of substantial personal advantage could be a great temptation for a normal mortal. Finally, by processing case studies it is also possible to rectify the belief that the immoral activity concerned is helping the company and that the company would therefore discreetly look the other way or even protect the person behaving immorally. In case studies (and of course all the more in everyday company practice) it should be made clear that loyalty to the company stops at the point where laws are broken and rights of others are violated.

Another element to be named here is discussed by many observers with ambivalent feelings:

Integrity assessments / expanding the hiring model

The statement by Max Frisch that "We called for workforce and got people" applies equally to companies that hire managers from "outside". Companies hire them because of their actual (or presumed) achievement records – but also get specific personalities into the bargain, with all their characteristics, values and behavioral preferences. In other words, they look for specific qualifications and end up with a whole "package" of undesirable personality features. It is clear that intelligence as a cognitive faculty based on the combination of talent, knowledge, the ability to understand, to rationally apply what is understood and to act reasonably does not exclude moral incompetence. It is also clear that intelligence in combination with lack of morality can wreak enormous damage – this damage is all the greater, the higher up such personalities are in the company hierarchy.[61] This begs the question whether the morality of people can be measured by tests.

Indeed, various institutes offer tests to "screen" potential candidates and gain insight on candidates' "moral characteristics".[62]

For the normal Central European, the idea of such a "character test" initially gives rise to an uneasy feeling: Who is testing what aspects of my character with what legitimacy and according to what standards? Is it a new form of inquisition? Are the most private

61 Collins D.: Five Levees for Improving Ethical Performance. In: Strategic Finance. Vol. 88 (2006), no. 1, pp. 19 – 61;

62 See e.g. http://www.integrityassessments.com/

things such as one's own morality anything at all to do with the employer – or does even the attempt to bring such things into the (albeit limited) public eye not itself smack of immorality, because it is an invasion of privacy?

The fact is that integrity tests in practice are not very popular either with companies or with other organizations. Many bodies that are responsible for the final selection of top managers shy away from formal assessments of values and character as a part of their screening criteria. One of the main reasons lies in the fact that good candidates could see this as demeaning and be deterred from submitting an application.[63] Other reasons include uneasy feelings in handling this subject.[64] The problems with integrity assessments are manifold:[65]

- Desirable and therefore sought-after qualities, such as "moral competence", "sensitivity to ethical and social concerns" or "integrity" in general, are high up on the wish lists for job applicants or candidates for promotion[66] – but they are difficult to measure and verify;
- Evaluations on whether the value-based attitudes to be measured are actually "lived" and not just demonstrated in well-prepared scenarios would require different evaluators, differing assessment methods and their application in different situa-tions – but that would be a protracted process that many qualified top managers would not be prepared get involved in;
- There is also a risk that the specific value-based premises of the various jurors would make for a certain inconsistency – especially in an intercultural context.[67]
- Social skills cannot be measured in tests, but only developed in collaboration with others and in concrete situations.

Although there are also many indications suggesting the usefulness of such tests[68], the prevailing overall feeling remains one of caution rather than enthusiasm. It is therefore preferred to do the "test" in-house, over a lengthy period and under real conditions:

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63 Harshman C., Harshman E.: The Gordian Knot of Ethics: Understanding Leadership Effectiveness and Ethical Behavior. In: Journal of Business Ethics March 2008, vol. 78 (1/2) p. 175-192.

64 Berenbeim R.E. The Corporate Ethics Test. In: Business and Society Review, Issue 63 (Fall 1987), p. 22-27.

65 See Harris H., Illes K.: Promoting and Assessing Integrity in the Research Degree. In: Electronic Journal of Business Ethics and Organization Studies. Vol. 13. (2008), p. 58 et seq.; and also Barlow C. / Jordan M. / Hendrix W.: Character Assessment: An Examination of Leadership Levels. In: Journal of Business & Psychology vol.17 (2003) no. 4, pp. 563 – 584;

66 Longenecker C. / Fink L.: Key criteria in the twenty-first century management promotional decisions. In: Career Development International, vol. 13 (2008), no.3, p. 243 et seq.

67 To explain this using a concrete example: many specialists in business and corporate ethics demand "social justice" – claiming deeper insight into what this term means. But the term, which is often used with the claim of being universally applicable, usually represents only *one* perspective among many.

68 Krohe writes "While testing is better than not testing, there are many more bad tests than good ones." See Krohe jr J.: Are Workplace Tests Worth Taking? In: Across the Board, vol. 43 (2006) no. 4 pp. 16-23; Neumann G.A., Baydoun R.: An Empirical Examination of Overt and Covert Integrity tests. In: Journal of Business &Psychology, vol. 13, issue 1 (Fall 1998), pp. 65 – 79; Harris H., Illes K.: Promoting and Assessing Integrity in the Research Degree. In: Electronic Journal of Business Ethics and Organization Studies. Vol. 13 (2008); see also Loviscky G. / et al.: Assessing Manager's Ethical Decision-making: An Objective Measure of Managerial Moral Judgement. In: Journal of Business Ethics, vol.73 (2007), no. 3, pp. 263-285; and Ones D. et al.: Controversies over Integrity Testing: Two View Points. In: Journal of Business & Psychology. vol. 4 (1996), no. 4, p. 487 et seq.

Minimum intervals between promotions to positions of higher responsibility

As mentioned earlier, the people we realistically have to do with in all societies, everywhere in the world and in all (political, economic and other) institutions are "average people" as regards all their characteristics and personal features. Filtering and selection processes are therefore needed to fill management positions with people who come close to what has been described as the ideal – and these processes need time. People are able to "simulate" or "play-act" and can fake characteristics and personality features from which they hope to gain advantage. This may deceive even sensitized observers in the short term. But over a longer period, in different situations and under constraints of time and resources, the "true" character and the "genuine" personality will always be revealed – ethically reflective activity is a process, not a singular event.

If intervals between promotions are too short, this could also be perceived within the company as a sign that one needs to look as good as possible *in the short term* in order to make a career. In many respects, looking "good" in the short term is also possible using illegitimate means and the problems created as a result may not become apparent until the successor is in place and, in the worst-case scenario, may even be attributed to the successor. The person who really caused the problem then unduely looks even better ex post than he already appeared in the short term – a demotivating problem of fairness.

The problem addressed here arises especially when preference for functions carrying a high level of responsibility is given to external candidates who are "imported" from other institutions. In such cases, not only does the advantage of the long-term view no longer apply, but additional risks arise through the importing of corporate cultural specifics that may not be compatible with those of one's own company.

A further problem -- that of the price that may have to be paid by companies for changes in management development practices -- should not be ignored: restraint in the alacrity with which people are promoted can result in excellent employees moving to competitor companies that have a less cautious approach to the promotion logic of requiring a certain minimum period of time in a specific position of responsibility.

The fact remains that where a company, through its personnel and promotions policy, secures the services of management personalities with a "post-conventional" level of judgment[69] – i.e. people whose judgment is based not on blind subjugation to existing laws and regulations, but on morally responsible weighing of rights and wrongs – there is a sense of something happening in that company which makes moral failure less likely. This is not wishful thinking; it is backed up by increasing empirical evidence.[70]

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[69] See Kohlberg, L.: Moral Stages and Moralization: The Cognitive-Developmental Approach. In: Lickona, T. (ed.): Moral Development and Behaviour. Theory, Research, and Social Issues. Harper & Row, New York 1976, pp. 31-53.

[70] Harris H., Illes K.: Promoting and Assessing Integrity in the Research Degree. In: Electronic Journal of Business Ethics and Organization Studies. vol. 13. (2008), no. 2; Maclagan, P.: Management Development and Business Ethics: A View from the U.K. In: Journal of Business Ethics, vol. 11, no. 4, 1992, pp. 321-328.

Outlook

It is clear that, in view of the marked division of duties, the complexity and the international nature of work in companies, an exclusively individualistic ethic is no longer sufficient to come to grips with the problem of moral responsibility. Corporate conduct is more than individual conduct. But there is no corporate conduct without individual conduct, and companies are thus also only secondary moral actors. The individual is and remains the primary moral actor.

Despite all the economic damage and social stresses, the present financial and economic crisis is a crisis of trust not only in the major economic and regulatory institutions, but even more and above all in the integrity of their management personnel. In addition to the political, financial and risk management-specific causes of the current crisis, there is also a need for the ethical causes to be analyzed: What role did the immoral activity of people in all spheres of society play? How can we encourage and enhance institutionally sustainable norms of behavior to which people conform because they feel personally committed? How can shrewd government, industry and self-regulation instill socially ethical elements into a market logic that is defined in purely economic terms? How do we find the "right" people for positions of responsibility and management in terms of their moral compass, people who know how to strike the right balance between business needs and ethical requirements and strive to achieve this in practice to the best of their knowledge and belief?

In crisis situations, people not only seek retrospective analysis, but also expect guidance and management. For this reason, the intellectual, social, financial and moral elites in particular are required to come up with answers to the questions posed as a result of the crisis-related problems and to point a way out of the crisis: in this situation, managers of the type described here perform their role model function for the social whole. Admitting without emotion to the mistakes made, systemically correcting them in a transparent way and showing hard work and perseverance to make a new start that draws lessons from the crisis. More important, however, than correcting mistakes is to prevent them from happening. Leaders anywhere in society are not "above the law", there is no justification for ethical relativism.[71] On the contrary: Leaders – also in corporations – are held accountable to higher standards.

When the top management of a company strays from the "path of virtue", cynicism spreads and the trust and loyalty of employees, customers and suppliers are lost – between the perceived integrity of top management and the attitude of employees in this regard there is a strong positive relationship.[72] Further empirically measurable positive impacts of a top management that displays a high degree of morality are greater job satisfaction among employees and greater appeal for above-average talents.[73]

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71 See also Price T.L.: Leadership Ethics. An Introduction. Cambridge University Press, Cambridge 2008.

72 Davis A., Rothstein H.: The Effects of the Perceived Behavioral Integrity of managers on Employee Attitudes: A Meta-analysis. In: Journal of Business Ethics vol. 64 (2006) no. 4, p. 416 et seq.

73 Fulmer R.: The Challenge of Ethical Leadership. In: Organizational Dynamics vol. 33 (2004) no.3 (August) pp. 307-317.

The promotion of a normative corporate culture and normative structuring of management instruments pays off not only in a reduction of transaction costs through confidence building[74], not only in the avoidance of damaged reputations or even fines as a result of activities either perceived as illegitimate or even illegal, and not only in greater security of expectation for customers and stakeholders, but also in a greater appeal for present and potential employees with an affinity for ethical situations. This leads to a positive selection of applicants and ultimately a workforce that supports and enhances an ethically motivated corporate culture. All this suggests that to integrate moral elements into the decision-making process and apply corresponding criteria when selecting managers is also a rational choice from an economic perspective.

The current new thoughtfulness regarding the sense and parameters of sustainable business activity is an opportunity to have another go at the issues of manager ethics and business ethics. The context of the following quotation from Shakespeare may not be exactly a model for ethical activity (Brutus is seeking support for his plan to murder Caesar) - but the message is universally applicable:

> There is a tide in the affairs of men,
>
> which taken at the flood, leads on to fortune;
>
> Omitted, all the voyage of their life is bound in shallows and in miseries.
>
> On such a full sea are we now afloat, and we must take the current when it serves,
>
> or lose our ventures.[75]

[74] The statements on the role of trust in the prosperity and development potential of societies can be readily applied to companies. See Fukuyama F.: Trust. The Social Virtues and the Creation of Prosperity. Free Press, New York 1996.

[75] William Shakespeare: Julius Caesar, Brutus, Act IV, Scene III