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Confronting Ethical Dilemmas at Work: Why Do Good People Do Bad Thing

By : Guest Contributor

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Ethics can be dangerous to your career. The danger may come not from your own ethics but from the ethics of people around you and the organization of which you are a part.

At work, you may be called upon to do things that turn out to be unethical or even illegal. What should you do if that occurs? According to the old adage, “The best defense is a good offense.” And the best defense against involvement in wrongdoing is being prepared for organizational challenges that will inevitably test your personal values, moral beliefs, and commitment to doing the right thing .

I believe that most people use a faulty model of unethical behavior because they think that “bad” people do “bad” things. In many cases, however, wrongdoing is done by people who are viewed as good employees, good managers, and even good leaders. The real challenge is understanding why “good” people do “bad” things.

One reason is that they fail to recognize that the problem they are confronting has an ethical component and is not solely a marketing or finance or other kind of problem. As a result, they often lack the ability to analyze the problem from an ethical perspective. Thus, the goal of ethics training is not to change people’s ethics — that is, make bad people good — but, rather, to enhance people’s sensitivity to ethical issues and provide them with tools for resolving ethical dilemmas effectively .

Most individuals and companies do not set out to make a defective product or to engage in massive fraud. Very often, these situations begin in small ways, with very small steps that seem inconsequential. It is also important for people to understand that most ethics scandals typically involve a number of people who are included in the decision-making process at each stage.

As a result, responsibility becomes diffused among these individuals, making it difficult to attribute blame to or impose accountability on any particular person. Although people may feel uncomfortable with what is happening as they move down the “slippery slope,” they convince themselves that “so long as it is legal, it is ethical” or that they are doing what is expected of them.

Rationalization — the ability to justify our behavior — is one of our greatest moral failings. Behavior that would clearly be considered unethical by an outsider becomes acceptable to those involved because “that is the way it has always been done” or “it doesn’t really hurt anyone” or “that’s the way they do it at Firm X .”.

I believe that creating a culture of integrity requires a well-articulated code of ethics that explicitly tells employees how they are expected to act, the manner in which goals and objectives are to be achieved, and the type of behavior that will not be tolerated.

Equally important, a culture of integrity requires an incentive system that is consistent with and promotes the organization’s values and vision. Because an incentive system has such a tremendous impact on behavior, it must include criteria for promotions, pay raises, and bonuses that encourage and reward behavior that is consonant with the organization's values.

In addition, management must assume responsibility for monitoring and regulating employee conduct — by designing and implementing effective internal controls — to ensure that the incentive system is guiding the decisions and behavior of employees in the intended ways. Incentive systems without attention to ethics often result in unintentionally incentivizing unethical behavior.

It is important to remember, however, that organizational cultures are fragile and can easily erode as companies grow and merge. Therefore, once a culture has been created, it must be constantly reinforced in order to be maintained.

It is also easier to create a culture of integrity in small firms, start-ups, and family-run businesses because such organizations typically have founders who set the tone for the organizations and whose behavior serves as a constant reminder of how employees are expected to behave.

Recent graduates just entering the investment profession are especially vulnerable to ethical missteps because they are often naive and may not see the ethical aspects of situations they confront .

In most organizations, there is top-down pressure to achieve specific goals and targets. Middle managers who feel the brunt of this pressure may turn to their subordinates and tell them to "just get the job done." Although managers may not explicitly ask their subordinates to do anything illegal or unethical, they often turn a blind eye to how an objective is achieved so long as it . Is achieved.

New entrants who may not be used to this type of pressure and who are inadequately prepared may get involved in unethical or illegal behavior in attempting to satisfy their managers without realizing that what they are doing is wrong. In my book Ethics in Finance)Malden, Massachusetts Black well Publishers, 2009), I cite the results from two studies of recent business school graduates to illustrate this point.

a Harvard University study of 30 business school graduates ,In many "received explicit instructions from their middle manager bosses or felt strong organization pressures to do things that they believed were sleazy, unethical or sometimes illegal." The graduates attributed these requests to the intense pressure to get a job done and to gain approval and did not believe that their organizations or their superiors were corrupt. A study of more than 1,000 Columbia Business School graduates found that 40 percent had been rewarded for taking some action they considered to be "ethically troubling," and 31 percent of those who refused to act in ways they considered to be unethical believed that they were penalized for their choice, compared to less than 20 percent who felt they had been rewarded .

So, what can be done to prepare people, especially new entrants, for careers in the investment industry? To begin with, it is important for participants to understand their role within an organization and the responsibilities and obligations that come with that role. With their particular role in mind, participants need to understand the types of ethical issues they will face in both the industry and their organization in order to increase the likelihood that they will be able to identify ethical situations when they are encountered.

Scenario-based ethics training is especially valuable in sharpening people's ethical sensitivity. Studying real-life ethical situations and dilemmas can help employees (1) increase their awareness of the ethical issues they may confront in the workplace, (2) identify ethical situations when they occur, (3) learn how to properly analyze and resolve ethical dilemmas, and (4) make sound ethical decisions and implement them effectively in the work environment .

Conflicts of interest, for example, are endemic in the financial industry because firms and institutions often serve as both intermediaries for clients' financial transactions and custodians of their assets. In addition, investment professionals often have to choose

among the competing interests of their clients and employers and weigh those interests against their own. Because conflicts are built into the structure of many financial institutions, the challenge for employees is not necessarily how to avoid conflicts but, rather, how to manage them in an appropriate manner.

Employees must be able to identify and distinguish between actual conflicts of interest — when they, or their firm, are acting against the interest of a party whose interest they have a duty to serve — and potential conflicts of interest that could develop into actual conflicts. These situations can result in misconduct or unethical behavior if not properly disclosed or otherwise adequately addressed.

Employees also need to recognize and avoid situations in which they, or their firm, stand to gain from not acting in the best interest of those they have an obligation to serve. For example, conflicts of interest can arise in personal trading, the sale of financial products, the allocation of commissions, the dissemination of research or market information, and the IPO and underwriting process. New entrants should be aware of these conflicts and prepared to handle them when they arise .

Investment professionals also need to be aware that attitudes toward ethics can differ geographically as well as culturally. Globalization has created tightly linked financial markets. Although core values are essentially the same around the world, how people understand and implement those values can differ. For example, in the Middle East, some people define corruption as not sharing what you have gained. Although many people in the West view this definition as the epitome of cronyism, in the Middle East and in other cultures where survival is a primary concern, people often depend on each other for survival.

So, if you have gained some benefit or advantage, you have not gained it on your own but, rather, through the cooperation and participation of others. Therefore, you are corrupt if you are not sharing what you have gained. What would be viewed as cronyism in the West is seen in some other cultures as sharing the gain resulting from the help of others.

Many may view such conduct as unethical, but when viewed from a different cultural perspective, it is regarded as not only ethical but also morally required. Another example is gift giving. Although gift giving may be viewed in the West as a form of bribery, giving gifts is an integral part of conducting business in Confucian cultures, where relationships are everything .

So, ethics can be dangerous to your career if you have not been trained to identify and analyze ethical problems and to resolve them effectively. Ethics can also be dangerous to your career if you work in an organization that does not support ethical behavior or, worse, encourages misconduct. Finally, we should recognize that anyone can get caught up in unethical conduct under the right circumstances.

Organizational forces are very strong, and we humans have many psychological weaknesses that make us vulnerable to wrongdoing. Steps can be taken to improve both organizations and the individuals in them, and we should take those steps. But the dangers cannot be eliminated entirely .