



OBSERVATÓRIO  
PORTUGUÊS  
DE BOAS PRÁTICAS  
LABORAIS

PORTUGUESE  
OBSERVATORY  
OF GOOD LABOR  
PRACTICES

# OPBPL Electronic Papers

**OPBPL e-Working Papers (ISSN 2182-8393)**

Av. das Forças Armadas, Edifício ISCTE, 1649-026 LISBOA, PORTUGAL

## Objectives

The Electronic Papers published by the Portuguese Observatory for Good Labour Practices (OPBPL) main goals are to confer the accessibility and high-speed readability of essential information and good practices in regards to work organisation, collective bargaining, human resources management, labour relations, inclusion and sustainability, corporate social responsibility, and labour market statistics.

## Editorial Board

Professor Doutor Paulo Pereira de Almeida\*, OPBPL-CIES-ISCTE-IUL\* Coordenador

Professor Dr. Afonso Pires Diz, Conselho Coordenador USI

Professor Dr. Álvaro Carneiro, OPBPL-ISCTE-IUL

Professora Dra. Ana Rijo da Silva, RH Magazine

Professora Mestre Cláudia Torres, OPBPL-CIES-ISCTE-IUL

Professora Doutora Cristina Parente, Universidade do Porto

Professor Dr. Pedro Rebelo de Sousa, Instituto Português de Corporate Governance

Professora Doutora Sofia Santos, CSK-ISCTE-IUL



Strategic Ethics and Moral-in-use

## Strategic Ethics and Moral-in-use

Author: Gabriel Sousa Henriques

### Abstract

A Portuguese bank has begun a bankruptcy process in 2008. Representations of commercial employees and their clients refer to organization's unethical behaviour and unreasonable risks token, causing serious financial and personal damage. In light of the relevant literature, this article discusses the way in which such behavior develops and argues that the solution lies in adopting an ethical strategy that ensures ethical behavior in the worst scenarios.

# 1 | Representations of commercial banking employees

A Portuguese bank has begun a bankruptcy process in late 2008, having the management asked for help to the state, which was not granted. If the financial and legal reasons can help to describe what happened, this will be, in time, cleared for those eligible. What has been available to us were the descriptions of the experience in the periods before, during and after bankruptcy, given by commercial employees and clients, both connected by the direct and personalized sales of financial products.

In general, commercial employees believed in the activity they developed over the years within an organization that was closely related to each client, socially prestigious, every year announcing good results and allowing employees to be paid salaries they compared favourable with other banks. Clients, belonging to middle or upper class, joined in pleased by the personalized treatment, by the prestigious bank image, constantly reinforced in media, and because they considered advantageous the interest rates in their investments. For both, the suspicion often launched by competitors on the credibility of the highest interest rates, was sometimes taken into account but immediately discarded. There was no recent memory of a bank failure, consequently, for both, a bank was "something that will never go bankrupt" due the protection offered by the banking system and the regulator and legal control.

During the second half of 2010 we had the opportunity to collect an update of these representations from both the commercial employees and the clients. Both were taken by surprise by the events of 2008.

Since commercial employees went through a period of bewilderment, in which they choose to affirm their professionalism helping help clients to improve their situation. Even if they did not feel involved in those management actions that resulted in potential losses for clients, they did not fail to recognize they were involved in the activity of the organization, which then commercial employees and clients recognized and claimed to have been misleading. During the period of this study, both groups described the recent past as very difficult, with consequences such as extreme anxiety and family disagreements. Deception was an expression commonly used referring to the organization but also the sense of betrayal by a system which reliance they took for granted.

In the other banks, the situation went different. No similar management failures were reported and the European Central Bank and State support prevented major difficulties. However, in these banks commercial employees refer to a lack of confidence from clients and the drastic reduction of activity, especially in loans and risky financial products, as well as progressive, although lagged target adjustment to a very different market situation. The external support granted to the country as well as the frequent declarations of the official authorities and bank boards themselves, if having a stabilizing affect on client's expectations are still failing to restore the previous levels of trust, in either commercial employees or clients.

This very brief description of part of the conclusions reached in a study, which will be completely publish and detailed elsewhere, deserves an ethical reflection.

## 2 | Business and Ethics

The importance of business ethics, as a respectful behavior towards society, employees and the environment, is an ever present topic that gained particular attention after the global financial crisis that preceded World War II. Despite the extensive legislation that has since regulated banking and business internationally, these rules proved inadequate after the crisis in the 1970s because it was impossible for economies to continue growing on the basis of investment from savings and low cost raw materials. The new development, based on lending growth and money supply, required progressive deregulation (Attali, 2009; Krugman, 2009).

The new global crisis that began in 2007 raised again the same and new questions, on ethics and regulation of banks and large company's activity. However, various authors were already reporting from the 1980s that there was a gap between what was stated and what was being done in organizations with huge economic power.

In the wake of the Wall Street scandals, a new industry that produces codes of ethics for companies, as well as the prescription of ethical standards that are encouraged in management literature or training courses, was born. Initiatives such as the *Business Roundtable* strive to set out "ethical standards" for different sectors of the economy, stating that these codes enable companies to become self-regulating so that there is no need for outside intervention from authorities. However, Enron, like all other large companies, had an elaborate and well publicized "code of ethics" long before the company went bankrupt.

"Such companies' codes of ethics show just how capable business consultants or public relations staffs are. However, there is not necessarily a connection between the companies' public statements about their virtues and the day to day rules of "moral-in-use" practiced by their executives and managers"(Jackall, 2006:446).

This moral-in-use concept reveals what done, independently of public statements. It confirms how individuals in organizations, at each level, relate in daily work experience to goals and challenges faced by organizations and by themselves, and how they do their work in order to ensure their survival in the organization. Indeed, it is "only by understanding how men and women in business really experience their work that we can understand the moral importance they attribute to it" (ibid.). Merton (1968: 168) referred to deviation from the norm: "sociological ambivalence constitutes itself in normative structures, in the shape of incompatible models of expectations and of 'dynamic alterations of norms and counter-norms' in social roles (...) which generates different proportions of deviant behavior". Also Berger and Luckman (1966: 127), did not focus so much on normative aspects of structures, but more on the knowledge shared by the agents, they refer to legitimation as a process of producing "new meanings that serve to integrate the meanings already connected to disparate institutional processes". This allows the subjective integration of individuals into the structure, thus enabling compliance after dissonance between defined standards and deviant processes, for example.

Thus, the business world is both social and moral. Managers (at various levels) constantly need to adapt to the organizations social environment in which they work to be successful. The ethical concepts broadly defined at company or even society level, are often overlooked in favor of the needs of bureaucratic operations, which has very strong implications for the possibility of ethical leadership and occupational ethics (Jackall, 1988: 3). Power is centralized at the top and in the person in charge (the CEO), while the responsibility for decisions and profit (and therefore the risk) is transferred down the structure, which has ethical implications. Firstly, the ones at the top expect good news from those below, without having to be too involved; secondly, pushing the details to the lower levels creates pressure on middle managers not only to convey good news but, because they know the details, to work in order to protect the organization, their leaders and themselves in the process. The middle managers become the potential guilty party when things go wrong. However, when things do go

well, credit is usually given to the highest level involved in the decision, and subordinates are expected to put up with this. In addition, the person to whom credit is given redistributes it at her discretion, but usually takes the public perception of their sense of fairness into account.

“Organizational morality is defined by factors like market proximity, staff or line responsibilities or the position a person has within the hierarchy” (Jackall, 1988: 6). The manager applies a rationale to herself, becoming an object of herself; she analyzes her strengths and weakness and decides what she needs to change in order to survive in the organization and systematically rebuilds her image (ibid.:59) as a continuous adaptation to new situations in performing her role; she tries to redefine the interaction situation in her favor, but continually conditioned by the social situation in definition (Goffman, 1983). By agreeing to become an object, she tries to assess situations and other people in the same way - as an object, a commodity, something to be scrutinized, rearranged, modified, packaged, publicized, promoted, and sold (Jackall 1988: 119).

In short, managers with the right style acquire a subtle, almost indefinable sophistication and polish, a real know-how, performing a role with urban characteristics, insight, humor, commitment and friendship. These roles are conscious public masks, designed to define a socially accepted situation, behind which the real struggles unfold and moral issues can be observed (ibid.: 59). A Portuguese manager describes how these roles are performed and always cover up what the actors really feel:

"I meet a friend who asks me how I am doing. I'm fine. Lots of work. They are tired of making money. I answered yes. The markets were very good. The budget was aggressive, but that is why we are paid for and all that stuff. Conversations between people of the financial world are fruitful on lies and omissions. The truths are known only later "(Ermida, 2008: p. 74).

Long-term success is subject to compliance with rules and targets in the short term. Moral principles are not abandoned, but short-term practical needs are urgent and often question them. The truth - what is right - is socially defined in this way. The compromise between general and long-term principles and practical needs becomes inevitable in organizational survival. As Mannheim (1936: 118) stated, bureaucracy turns all policy issues into matters of administration. It also transforms

"all the moral issues into immediately practical concerns. A moral judgment based on a professional ethic makes little sense in a world where the etiquette of authority relationships and the necessity for protecting and covering for one's boss, one's network, and oneself supersede all other considerations and where nonaccountability for action is the norm "(Jackall, 1988: 111).

For Robert Jackall, bureaucracy becomes an intricate set of moral mazes for managers that are paradigmatic of the quandaries of public life in our social order. Within this framework, the puzzle for every individual manager becomes. How does one act in such a world and maintain a sense of personal integrity? (Jackall, 1988: 194).

### 3 | Ethics and strategy

Companies value their habits, their ways of being in society, the way they compete, their relations with shareholders, employees, customers and suppliers. Each company has a mystique and attributes a meaning to their place in society; which is shared within the company and rebuilt through interpretations in their relationship with society. This culture has implicit or explicit values. The beliefs negotiated among individuals act as sediments of individual preferences and mutual recognitions (Ricoeur, 1985) about what company's virtues are and reveal its ethical projection on culture, and rules of behaviour.

Company culture must emphasize that business is an ethical activity. Instead of fostering competition and results at any cost,

"Business at its best, by contrast, is the conscientious production and promotion of not only quality products and services but a better life for everyone – one's customers, one's employees, the surrounding community, and society in general" Solomon (1997: xv)

It is already common for companies to specify ethical values. It is extremely important to communicate in a clear way what is and is not valued in a company with hundreds or thousands of employees or one that spreads across regions or countries. In this process, the type of pre-existing culture is also an important part because it may

or may not facilitate the introduction of values that will redefine it. Once the values are explicit, is raised the question of their coherence with the culture and organizational practice.

The role of each person in the organization, concerning the coherence between what is said and what is done is not indifferent. The higher up a person is in an organization, the more influential she is. It is essential to have a coherent message and practice if the organization is to recognize and practice the values. From the top right down to middle managers this consistency is necessary.

The analysis of this coherence is made by examining how the values were defined and how they are lived (what integrity can be found) in the organization.

*Ethics auditing* is a crucial notion when assessing company culture, as is the correspondence between formality and practice. While formality consists of the rules by which individuals govern themselves in the company, the informal practice, cultural norms, heroes, rituals, stories and language may reveal correspondences with the formal or mere facades.

In any case, the company's board plays a very important role in defining or redefining values, through the concrete example of their statements and actual actions.

The growing demand for an ethical position on ecology, society and people, has resulted in many companies wanting to define their own ethical position and in a new flourishing consulting industry. While many companies position themselves honestly from a responsible perspective, there are also cases where this is used more as a selling point rather than a commitment (Lencioni, 2002).

A code of ethics determines a certain type of conduct and rules to apply in a particular way by the individuals in the organization. According to Paul Singer (2000: 253), the rigor with which these are applied can constitute a fundamental choice, in which an ethical choice always guides life in any situation, whatever the consequences. Companies seem to accept this position at management level, but in difficult situations or dominant interests, they explicitly or implicitly admit exceptions in the name of values such as the company's continuity or the priority of the same group interest. This exception is rarely taken as such; instead, it is concealed or even assumed as a creative application of the values of which it is an exception. These implicit values therefore give priority to what was stated and the "fundamental choice" does not apply. From the company standpoint, it is an inefficient choice and a lost of opportunity.

A value system may have ethical requirements on how to sell value products for customers, how to respect society and nature, or to value and develop company's

human resources. It may also involve specific ways of doing business, how to cultivate competitive behavior (even loyal behavior) with competitors, or require co-workers to work in close collaboration with each other, or even value targets and results in an essential way.

The company culture, as the way a company behaves in society and the way an individual works there; includes the value system as a structural factor and also defines in explicit or implicit way rules of behaviour – codes of conduct, defining behaviors and conditions in light of ethical values, and constituting a well-defined moral code whose application is easily verifiable and subject to sanctions. These sanctions, if they are framed within the law in terms of non-compliance and punishment, have a legal and effective force. Otherwise, from a legal point of view, they can only affect the employee positive valorization, not resulting in rights loss. In any case, the moral code implicitly conditions the employee's acceptance in the company.

The moral code, based on ethical values and outlining behaviors is in a constant dialogue with personal values. "The value (...) is the socialized rule, always in tension with each person's moral judgment" (Ricoeur, 1985), but this is not done with an absolute determinism. People apply values and rules and therefore subcultures and interest groups develop. Getting to know the culture and power games in a company involves observation and time. It is important to know what is publicly stated, but knowing the reality and its dynamics requires study.

Badaracco (2004), from Harvard Business School, distinguishes the way managers' personal values influence their decisions ("real world") from what they "should" do, and refers to the pressure for results and the frequency of situations seen as dubious. This influential position offers an "ideal" place for ethics in the sense of something good but not entirely achievable or even optional.

In contrast, for Solomon (1997: 59) "Strategy is the key to good business" in a sense that it allows the definition of values and norms to establish a corporate culture in a planned and organized way. According to this author, strategy permits a *long-term planning preventing unethical behavior, avoiding situations in which the company would need to suspend ethics to survive* (emphasis added). Solomon (1997: xiii) states that business is an ethical activity and that the search for excellence, whatever that means, begins with ethics.

The Portuguese experience suggests that the recent emphasis on these areas benefits the entire society; moreover, it is only by strengthening regulation and control that they will become a civil requirement.

## 4 | References for further reading

### BOOKS:

- Attali, Jacques (2009). *A crise, e agora?*. Lisboa: Tribuna.
- Badaracco, J.L. (2004). Personal Values and Professional Responsibilities, in *Harvard Business School*, Boston.
- Berger, Peter e Luckman, Thomas (1966), *The Social Construction of Reality: A Treatise in the Sociology of Knowledge*, Nova Iorque, Doubleday.
- Ermida, João (2008). *Verdade, Humildade & Solidariedade – o método dos executivos do futuro*. Lisboa: Publicações Dom Quixote.
- Goffman, Erving (1983). The Interaction Order in *American Sociological Review* 48(1) 1-17.
- Jackall, Robert (1988). *Moral Mazes: The World of Corporate Managers*. USA: Oxford University Press.
- Jackall, Robert (2006). An interview with Robert Jackall, in *European Management Journal* Vol. 24, No. 6, pp. 439–448, December 2006.
- Krugman, Paul (2009). *O Regresso da Economia da Depressão e a Crise Actual*. Lisboa: Editorial Presença.
- Lencioni, P.M. (2002). “Make Your Values Mean Something”. Boston: Harvard Business Review.
- Manheim, Karl (1936). *Ideology and Utopia*. New York: Harcourt, Brace & World, Inc.
- Merton, Robert K. (1968), *Sociologia. Teoria e Estrutura*, 3.<sup>a</sup> ed. (revista e aumentada), São Paulo, Editora Mestre Jou.
- Ricoeur, Paul (1985) Avant la loi morale: l'éthique. *Encyclopédia Universalis*, Paris, 1990
- Singer, Peter (2000). *Escritos sobre uma vida ética*, Lisboa: Ed. Dom Quixote.
- Solomon, R.C. (1997). *It's Good Business – Ethics and Free Enterprise for the New Millenium*. Maryland, USA: Rowman & Littlefield Publishers

SITE: <http://opbpl.cies.iscte.pt>



carbon  
neutral

## Environmental Policy

The Electronic Papers published by the Portuguese Observatory for Good Labour Practices (OPBPL) are CO2 free; all the OPBPL labour practices respect the environment and go towards sustainability



| [www.off7.pt](http://www.off7.pt)