

Practical ways to establish an ethical compass in business

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Centesimus Annus Pro Pontifice (CAPP) Foundation; Fifth Consultation Meeting
New York, 15-17 March 2018

Discussion Paper

Establishing an ethical compass in business is a task which, applying the systematic of Professor Nien-hê Hsieh,¹ belongs to the level of “promulgation” of a reconstructed compass. According to the Professor, business associations, managers and leaders are responsible for providing an ethical compass to those who apply standards and norms. It is a responsibility that I support wholeheartedly.

I would like to enrich this discussion with four theses on practical ways to establish an ethical compass in business and corporations:

1. **The CEO and the executive board are responsible for the culture of a corporation.** If the highest-ranking managers of a corporation do not promote ethical behaviour, then no one else will. Indicators of the importance of this issue may be found in the following areas: To whom does the head of compliance report? Are corporate values an issue at management conferences, or is it just all about numbers? And how resolutely does the leadership team react to irregularities? Implementing ethical standards is a top-down task. So I also believe that managers should be held responsible for the unethical behaviour of their employees, even if they were unaware of it. At first glance, this may feel unfair, but otherwise too many managers will only focus on delivering results, while turning a blind eye to how those results were achieved.
2. **The ethical compass needs to become a selection criterion for management positions.** Most human resources departments would agree with this thesis, but is it really reflected in the selection processes? For example, an assessment for a leadership position usually includes the simulation of a difficult management situation. This role-play is normally about business optimisation, and the set-up determines which candidates will succeed: self-confident, tough candidates who are able and willing to do difficult things for the sake of the company. Ethical principles are not tested, nor are management qualities like cooperation, and openness to different points of view. This generalisation is inevitably unfair to many human resources units. I firmly believe that the existence of an ethical compass needs to be a hiring criterion, rather than a policy presented to new hires in a brochure after contracts are signed.

¹ Nien-hê Hsieh, Associate Professor of Business Administration, Harvard Business School. “*Reconstructing an Ethical Compass: Who is Responsible? With Whose Mandate?*” To be presented at *An Ethical Compass for the Digital Age*, The Dublin Process, Fondazione Centesimus Annus – Pro Pontifice (FCAPP) Fifth Consultation Meeting, New York City, 15–17 March 2018.

3. **In order to gain acceptance, an ethical compass needs to increase employees' confidence in their actions.** An ethical compass should empower employees in dilemma situations. It also needs to put the employees into a position to refuse requests for changes to business practices. For example, not every issue raised by non-governmental organisations is properly deliberated or in the public interest. An ethical compass must be more than a guidebook for anticipatory obedience, or a list of prohibitions: it needs to provide confidence in one's own ethical judgement.
4. **The capability of business organisations and professional associations to set and promulgate ethical standards will decrease in future.** Let us take two specific examples: the agreement of car-insurers in Germany not to leave any accident victim without insurance cover, or the agreement between life and health insurers not to insist on genetic tests – even though the results would be of extreme interest for underwriting and pricing of policies. Whether or not we agree, choosing not to comply with such voluntary industry agreements provides a competitive edge. Globalisation opens up markets for unfamiliar players from new countries that may have different ethical standards. Digitalisation allows start-ups swift market entry, and the temptation to do so by exploiting competitive edges is high. Therefore, I believe that in future it will become more challenging to establish voluntary ethical industry standards.

As this paper seeks to further the discussion on an ethical compass for the digital age, I would like to comment on three other aspects of Professor Nien-hê Hsieh's paper.

1. Professor Nien-hê Hsieh puts forward valid arguments as to why many aspects of digitalisation do not necessarily need a new ethical compass. For some elements in the digital age, however, more work is needed on the level of identification. As set out in the paper with the example of data security for private smartphones, ensuring consumer data protection is nothing new as long as the individual does not want the data to be used by government or by private companies. But how do we handle all the terabytes of information that are publicly and legally available? Many decisions are now taken by algorithms based on this information. Increasingly, it is complex algorithms that "determine" whether or not someone is offered a bank loan. With fewer and fewer of those decisions being supervised by humans, the machine has the final say. The applicant is not treated as a person with individual rights, but as a member of a group clustered by an algorithm – such as people with the same postal code. Algorithms and machines decide on opportunities for access to financial means, health protection and so on. If we agree that business should serve the common good, and thus the people, and that human beings should not be reduced to mere data points, then ethics needs to provide guidance on how to protect individual rights, dignity and opportunities in a digitalised economy.

It is not only the relationship between corporations and their customers that is experiencing fundamental change under digitalisation, but also the relationship between corporations and their employees. In the industrial age, there was a clear delineation between working time and leisure time. Now, in the digital age, the boundaries are less clear. Many employees are available around the clock, and emails are checked even on weekends and during holidays. Corporations often encourage their employees to act as business ambassadors by promoting the company via private social media accounts. Even business equipment is shared – for

example, via “bring your own device” options. All this diminishes the sphere of privacy. Now that employers can access social media accounts, they know what employees are thinking, where they spend their holidays, and who they befriend/unfriend. As a consequence, job applicants may not be invited to an interview because of private photographs on their Facebook account. Furthermore, employees can be asked to delete posts on their private social-media accounts that are considered to be a reputational risk for the corporation. Here also, digitalisation poses new questions for business ethics. The boundary between employee and private person is not only shifting, but is completely blurred.

2. A second point which I would like to emphasise is the personal responsibility of all actors. Professor Nien-hê Hsieh acknowledges “greater responsibilities on the part of managers of large corporations that can severely impact the lives of many”. This may lead individuals to feel that their contribution or action is irrelevant. Why should they make an effort to protect the environment, for example, as long as millions of people still act and live in a way that causes heavy pollution? This attitude gives rise to the economic theory known as the tragedy of the commons, which represents an abdication of responsibility at a personal level. The greater the expected impact, the greater the responsibility of the persons in charge – but there is no ethical standard that is exclusive to top-decision makers. People should not just adopt ethical standards only when they become influential: ethical behaviour needs to be practiced at all times – also in situations with little or no impact on others. Ideally, it should be based on a general set of value parameters provided by family, society and, of course, religious beliefs as a fundamental prerequisite for each and every ethical compass. Ethical standards should not depend on the assumed impact.
3. “*Do no harm*” and “*respect human rights*” are good starting points to develop principles for an ethical compass. But, of course, the devil lies in the detail. If an infrastructure project is good for some, because it will improve transport or access to electricity – but bad for others, because they have to be resettled or will suffer from noise – then “*do no harm*” will not work as a tool that provides unambiguous guidance. The same holds true with regards to respect for human rights. And there is the question of how far these principles apply. I think we all agree that human rights should not only be ensured within a corporation, but also among suppliers and subcontractors. Or is it ethically justifiable to do business with states which do not respect human rights, even if they themselves may claim to do so? And what about companies controlled by such states?

This short discussion paper can outline important considerations, but cannot begin to provide a comprehensive solution. We will all need to work together in order to make the ethical compass a relevant tool for practical use.