



THE ETHICAL APPROACH

# THE ETHICAL DIMENSION OF MANAGEMENT

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IESE has been teaching ethics and corporate social responsibility long before they became fashionable. In fact, they are part of the school's DNA. Human and ethical values are essential to IESE's students' development.

## "THE CENTRALITY OF THE PERSON, WHAT NOW WE CALL THE ETHICAL AND HUMANISTIC DIMENSION OF MANAGEMENT, WAS ALREADY PRESENT IN IESE'S FIRST BROCHURE PUBLISHED IN NOVEMBER 1958."

Professors from other business schools occasionally ask me since when IESE offers courses on ethics and social responsibility. I usually answer with a personal anecdote. More than 30 years ago, when IESE's first dean, Antonio Valero, was director of the business policy department, he asked me to teach a module in the executive education programs consisting of three case studies and a closing conference.

I still remember some of those cases, such as "Merck and Co. Inc." and "Peter Paul Inc. in the Philippines". They were cases of what we now label corporate social responsibility and business ethics. Back then, we did not use those terms, but the module formed part of the business policy course. In other words, rather than being an add-on, the ethical dimension was built into the heart of management studies as understood at IESE.

I did not come up with the content for that module. I inherited it from my colleagues who had been teaching it before I even came to IESE. Some years later Miguel Ángel Gallo summed up what we knew at the time in a book titled *Responsabilidades sociales de la empresa*, (*The Company's Social Responsibilities*) published in 1980 as part of the IESE collection.

Later, courses focused on ethics and corporate social responsibility were created, research flourished and publications multiplied. IESE established the Business Ethics Department, the Chair of Business Ethics, the "la Caixa" Chair of Corporate Social Responsibility and Corporate Governance and the Center for Business in Society. But the ethical dimension was already at the core of the school.

In fact, in its mission statement, IESE stresses that human and ethical values are essential to its students' development, for the sustainability of their organizations and for assuming their responsibility to society. This is a differentiating factor of our school and, as I indicated earlier, a component of its founding principles. St. Josemaria Escrivá's instruction, which led to IESE's birth, was to found an institution, which would offer business leaders management education with Christian values.

This implied a holistic approach that showed students how to reconcile their personal, family and professional obligations, as well as enhancing their organizations while contributing to a better society. Ethics and corporate social responsibility were not then separate elements, but a central aspect of IESE's educational mission.

The centrality of the person, what now we call the ethical and humanistic dimension of management, was already present in IESE's first brochure published in November 1958. It stated that all decisions made by executives "ultimately...should be made through a human organization. After all, the company is nothing but a team of people... IESE is determined, therefore, to develop in its students... the desire and ability to understand people. The school trains them to always take the human factor into account

as a basic and fundamental constant in every business decision."

It is interesting to note that this defining element in IESE's mission is not independent from the rest. Senior management, for example, takes into consideration the dimensions of all short and long-term problems from an ethical point of view.

Using the case study method also contributed to the development of an ethical viewpoint. The discussion of real-life situations goes beyond the session's scientific content, forcing participants to take into account the multiplicity of dimensions involved in any decision, including the impact on people and responsibilities to society.

And the practical objective of education at IESE – the development of students' executive skills – forces the consideration of excellence as the objective of business leaders' education, with the related focus on moral values such as respect for people, a spirit of service and a sense of responsibility.

The content of management science in the 1950s was probably more compatible with this ethical approach than what emerged in the 1970s, due mostly to influence from Anglo-Saxon countries. However, the development of ethical management was never easy going, especially with rampant capitalism and other perspectives not much in line with this moral conception of business and the organization.

In any case, the ethical dimension of IESE's activity should go well beyond offering antidotes against these materialistic — relativistic or individualistic — business philosophies. It cannot even settle for a moralizing additive, a more or less aseptic technical education.

It was obviously not a matter of imposing a Christian philosophy of life on people who had nothing to do with it either. IESE wished to give its students, as we have noted earlier, a Christian education. But its curriculum should be based on a conception of persons, society and organizations compatible with the underlying truths from the best that economics, psychology, sociology, political science and the other disciplines that make up management had to offer. The Christian education offered at IESE could not consist merely of covering neutral subjects with a religious varnish, but neither could it offer a take on management shoe-horned into an essentially religious ideology.

At IESE we knew that a Christian view of persons, business and society was compatible with effective management. There continue to be many social scientists committed to integrating management with ethics.

Many IESE professors have dedicated their efforts to this task throughout the years. Juan A. Pérez López, who passed away 12 years ago, deserves special mention. What we attempted

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to develop was a way of understanding the company and the executive's role in such a way that ethics was not enforced as an external restriction, in other words, as a set of philosophical, religious, ideological, political or social prohibitions or rules, but rather as an additional aspect of the organization's management.

Pérez López went back to the theory of human action, which is that business decision-making is a good example of how people act. When an executive decides something, he tries to resolve a current problem or need by keeping in mind that he will have to resolve the same problem, or perhaps other problems, again in the future. It is therefore important that a decision made today does not interfere too much with future decisions. The wrong decision now can mean having to make less-than-satisfactory decisions, finding it harder to make decisions or facing resistance from collaborators in the future.

Prof. Pérez López therefore proposed evaluating organizational decisions in light of all their possible effects. This implied first considering the most obvious aspect of executives' actions, the effectiveness of decisions in terms of income, expenses, profits or productivity. This dimension, of course, added nothing new to the study of management.

Here we could only follow the path forged by so many prestigious scholars. Secondly, what is known as the decision's efficiency must be kept in mind. How satisfactory is it for those involved and how does it contribute to developing the corporation's distinctive capabilities? This component is not quite as frequent, although it has been thoroughly researched by academics.

The third dimension, consistency, turned out to be most innovative in its treatment of business decisions. Executives must bear in mind that every single decision they make affects others, making it easier or harder for people to relate to the organization's objectives and to address its needs.

An action which is highly effective, in terms of profitability, and efficient in terms of satisfaction and learning, in the short run could have disastrous effects for the organization if it turns out to be inconsistent. In other words, if it draws negative feedback from other people involved and especially if it forces the executive to make increasingly more inconsistent decisions.

This third dimension gives way to business ethics not as an external imposition but as an integral component in the executive's conduct. This is not a set of rules governing behavior but a requirement in the management process itself. An unethical decision is a bad decision, even though it may appear profitable in the short run.

An unethical executive is a bad executive, even though he may achieve high margins and his peers may sing his praises. And a company that does not take into account ethical criteria is a

bad company, even if it is highly valued in the capital markets, for example. And, obviously, in a school dedicated to educating executives — fostering management excellence — the ethical dimension has to be pervasive.

The work of Juan A. Pérez López was cut short by his death in 1996. But others here at IESE — and beyond IESE — continue the task he began. That task is the development of a broader and more realistic understanding of business which takes ethics into consideration not as an external restriction ("too bad, I won't be able to make that decision because it's immoral"), or as the application of universal principles to boost profit ("being ethical is good business"), or for compensating its dehumanizing effects ("you have to add some ethics to management because, otherwise, working in business can be very unpleasant"). Instead, ethics should be considered an internal condition for the quality of decision-making, the continuity and growth of organizations and the development and improvement of the people who direct them.

That is what we are working on. We are not the only ones, and we are not sure that our line of work is the most adequate. But it is worth the effort, is it not? After all, this is what IESE has been working on for fifty years