

## 11.5: The Role of Ethics and National Culture

### Learning Objectives

1. Consider the role of ethical behavior on decision making.
2. Consider the role of national culture on decision making.

### Ethics and Decision Making

Because many decisions involve an ethical component, one of the most important considerations in management is whether the decisions you are making as an employee or manager are ethical. Here are some basic questions you can ask yourself to assess the ethics of a decision.<sup>[1]</sup>

- Is this decision fair?
- Will I feel better or worse about myself after I make this decision?
- Does this decision break any organizational rules?
- Does this decision break any laws?
- How would I feel if this decision were broadcast on the news?

The current economic crisis in the United States and many other parts of the world is a perfect example of legal yet unethical decisions resulting in disaster. Many experts agree that one of the driving forces behind the sliding economy was the lending practices of many banks (of which several no longer exist). In March of 2008, a memo from JPMorgan Chase & Co. was leaked to an Oregon newspaper called “Zippy Cheats & Tricks” (Zippy is Chase’s automated, computer-based loan approval system). Although Chase executives firmly stated that the contents of the memo were not company policy, the contents clearly indicate some of the questionable ethics involved with the risky loans now clogging the financial system.

In the memo, several steps were outlined to help a broker push a client’s approval through the system, including, “In the income section of your 1003, make sure you input all income in base income. DO NOT break it down by overtime, commissions or bonus. NO GIFT FUNDS! If your borrower is getting a gift, add it to a bank account along with the rest of the assets. Be sure to remove any mention of gift funds on the rest of your 1003. If you do not get Stated/Stated, try resubmitting with slightly higher income. Inch it up \$500 to see if you can get the findings you want. Do the same for assets” (Manning, 2008).

While it is not possible to determine how widely circulated the memo was, the mentality it captures was clearly present during the lending boom that precipitated the current meltdown. While some actions during this period were distinctly illegal, many people worked well within the law and simply made unethical decisions. Imagine a real estate agent that knows a potential buyer’s income. The buyer wants to purchase a home priced at \$400,000, and the agent knows the individual cannot afford to make payments on a mortgage of that size. Instead of advising the buyer accordingly and losing a large commission, the agent finds a bank willing to lend money to an unqualified borrower, collects the commission for the sale, and moves on to the next client. It is clear how these types of unethical yet legal decisions can have dramatic consequences.

Suppose you are the CEO of a small company that needs to cut operational costs or face bankruptcy. You have decided that you will not be issuing the yearly bonus that employees have come to expect. The first thing you think about after coming to this decision is whether or not it is fair. It seems logical to you that since the alternative would be the failure of the company and everyone’s losing their jobs, not receiving a bonus is preferable to being out of work. Additionally, you will not be collecting a bonus yourself, so that the decision will affect everyone equally. After deciding that the decision seems fair, you try to assess how you will feel about yourself after informing employees that there will not be a bonus this year. Although you do not like the idea of not being able to issue the yearly bonus, you are the CEO, and CEOs often have to make tough decisions. Since your ultimate priority is to save the company from bankruptcy, you decide it is better to withhold bonuses rather than issuing them, knowing the company cannot afford it. Despite the fact that bonuses have been issued every year since the company was founded, there are no organizational policies or laws requiring that employees receive a bonus; it has simply been a company tradition. The last thing you think about is how you would feel if your decision were broadcast on the news. Because of the dire nature of the situation, and because the fate of the business is at stake, you feel confident that this course of action is preferable to laying off loyal employees. As long as the facts of the situation were reported correctly, you feel the public would understand why the decision was made.

## Decision Making Around the Globe

Decision-making styles and approaches tend to differ depending on the context, and one important contextual factor to keep in mind is the culture in which decisions are being made. Research on Japanese and Dutch decision makers show that while both cultures are consensus-oriented, Japanese managers tend to seek consensus much more than Dutch managers (Noorderhaven, 2007). Additionally, American managers tend to value quick decision making, while Chinese managers are more reflective and take their time to make important decisions—especially when they involve some sort of potential conflict.

Another example of how decision-making styles may differ across cultures is the style used in Japan called *nemawashi*. Nemawashi refers to building consensus within a group before a decision is made. Japanese decision makers talk to parties whose support is needed beforehand, explain the subject, address their concerns, and build their support. Using this method clearly takes time and may lead to slower decision making. However, because all parties important to the decision will give their stamp of approval before the decision is made, this technique leads to a quicker implementation of the final decision once it is decided.

## Key Takeaways

Asking yourself some key questions can help you determine if a decision you are considering is ethical. A decision being legal does not automatically make it ethical. Unethical decisions can lead to business failures for a variety of reasons. Different cultures have different styles of decision making. In countries with a collectivist orientation, a high value is placed on building consensus. Some national cultures value quick decision making, whereas others believe in taking time to arrive at a decision. Taking national culture into account is important in effective cross-cultural business interactions.

## Exercises

1. How can you assess if you are making ethical decisions or not?
2. Have you seen examples of ethical or unethical decisions being made? Describe what you observed.
3. Have you seen examples of national culture affecting decision making?
4. What advice surrounding decision making would you give to someone who will be managing a new division of a company in another culture?
5. What can go wrong when cultural factors are ignored?

## References

Manning, J. (2008, March 27). Chase mortgage memo pushes “Cheats & Tricks.” *The Oregonian*. Retrieved November 1, 2008, from [www.oregonlive.com/business/i...ushes\\_che.html](http://www.oregonlive.com/business/i...ushes_che.html).

Noorderhaven, N. G. (2007). Comprehensiveness versus pragmatism: Consensus at the Japanese-Dutch interface. *Journal of Management Studies*, 44, 1349–1370.

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1. Adapted from ideas contained in Kenneth Blanchard and Norman Vincent Peale (1988). *The power of ethical management*. New York: William Morrow. ↩
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