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DECISION: THE SPACE BETWEEN THE CODE OF ETHICS AND ETHICAL BEHAVIOUR

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The financial crisis and frauds that have occurred in the last decade have inspired an extraordinary wave of regulatory reforms, changes in corporate governance structures, adoption of codes of ethics, and implementation committees (Dominguez, Alvarez and Sanchez, 2009). However, despite these clear efforts that promote ethical behaviour in the financial world, the fact is that the link between preventive solutions and a reduction in the number of scandals is not clear. (Huse, 2005; Roberts et to the, 2005; Hans et to the, 2009; Schwartz, 2005; Bonn and Fisher 2005). There is still a gap between what it is said and what it is done.

Therefore, the new question that arises is how to form this bond and transform a code of ethics in ethical actions? The answer lies in a change in the decision making process since the decision is the time bag between reflection and action, that is, between the code of ethics and the ethical behaviour.

A good decision qualifies as such when it carries out a procedure of analysis that takes into account certain principles (Howard, 1976).

Therefore, the quality of analysis in the decision-making of a manager is of fundamental importance to the transformation of corporate plans and strategies. This, in turn, framed in the context of business growth, embodies the essential need to fit the decision analysis approach into the corporate internal financial perspective because it is almost impossible to think about strategic decisions regardless of from the allocation of resources.

It is common to observe the continued discussion among financial people and ethics teachers trying to give an answer to the dilemma as to whether the goal of corporations is or is not to maximise shareholder value. To account for this debate very present in the literature, it is necessary as a first step to clarify the value or values that want to be maximised. Only that way, with the formalisation of the ethics in a tangible value or values, a new sense to the analysis and a specific meaning to this universal concept may be given.

Recognising the true values of a company goes beyond reading its corporative social report, its mission, and even its code of ethics. Adam and Shavit (2008) suggest to analyse the way in which the company carries out the assessment of the investment options and to observe the criteria used for the allocation of resources. These criteria are a more realistic demonstration of corporate values because decision makers use them to judge whether a proposal is good or bad for the business context. In many companies the evaluation of investment options is a fundamental part of the process of Portfolio Management of Strategic Projects (CPM for short English Corporate Portfolio Management).

Throughout this process, the decision-maker constantly faces difficult choices mainly by selecting projects that fulfill the growth target of the company without contradicting the ethics of the business. The reality is that the evaluation of investment options that maximise these two types of values involves a complex thought process filled by a tangle of interactions. An effective technique for addressing the complexity of this type of situations is the use of Analysis for Decision Making with Multiple Criteria (MCDA) as an internal procedure for making strategic investment decisions. The implementation of this method allows to transform the approach to Project Portfolio Management by translating a general concept of ethical values into tangible and specific values, and by providing a useful learning tool for achieving better decision-makers education, and as a result to achieve more ethical actions.

Value vs. investment values

If we pay attention to recent changes in regulations (Somarnes Oxley Act in the United States and Bribery Act in the United Kingdom, etc.) and to the changes in corporate governance schemes, it can be observed that the efforts of recent years have seen monitoring and auditing as an universal solution for the reduction of cases of unethical behaviour. One consequence of this type of solution is the tendency for companies to consider ethical behaviour from a legal compliance point of overs. In this respect, a recent survey of the FTSE350 (Barma, 2010) confirms this tendency by showing that about 70% of participants identified the Internal Audit Committee as responsible for ethical behaviour.

The challenge is to get companies to depart from this policy and to move on from delegating the topic to a specialist, or a committee of the Board of Directors, or to a group of consultants to making ethics an integral pert of their business models, included into strategic processes and hence investments evaluation.

For this to happen, the first step is to define ethics in a way that is congenial with a specific business pattern. With a substantive definition I do not mean a code of ethics or a list of business values because too often we think that these efforts are enough to create an organisational culture. However, the expert in CPM, Kevin Bossley (Catalyzed[1] Consult-

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ant) who has participated in dozens of strategic decisions, in an interview described otherwise. When asked how often is expressed and taken into account in decisions the commitment that some companies have to preserve the environment, human rights or a particular community, he, surprinsingly, pointed out the lack of inclusion of these values in the evaluation of strategies.

Unfortunately, these observations are not surprising from a personal point of view, if one takes into account that a company's growth, the success of a product, the value of the shares, and so on, is epitomised only in financial values or indexes that represent them. Consequently, this way of reporting and measuring success is a source of pressure for decision-makers. In a way, this is what the survey by AMA (2006) reveals, in which two-thirds of the participants responded that the pressure to meet unrealistic business goals is the most likely cause for making the ethical standards of an organisation irrelevant.

This kind of pressures could be alleviated if corporate employees had a tool to show to managers in a frank way the challenges involved in making decisions, particularly when you need to decide where to invest money often in millions dollars amounts. Hence, the importance of a process allowing the definition of values that are real business goals and explicitly relevant for the investors.

One practical manner in which we can identify the investment priorities of a company is through the decisions taken pursuant to the Portfolio Management of Strategic Projects. This function is an internal financial process that can be defined as a sequence of decisions seeking the best combination of projects and programmes ensuring business growth. This sequence of decisions includes identification, prioritisation, authorisation, and project management (Sanwal, 2007).

In theory, a Portfolio of Projects at the highest level is designed to define strategies and give a direction to financial decision making. A typical life cycle of a project portfolio begins with the introduction of the strategic plan from which we derive the determining criteria for the allocation of resources. (Sanwal, 2007). We would expect that the mission and vision could give specific clues about the criteria for making decisions and provide guidance as to the values to be maximised through investments, i.e, which value or values it will give value through money. Under this premise it is said that a strategic project portfolio shows the real interest behind the investment.

Ethical dilemmas are complex decisions

The reality is that if a project is preferred over another it is because it is valued for more than one reason. This statement by Ralph Kenney is the premise on which the Analysis for Decision Making with Multiple Criteria (MCDA) is based, which, as its name indicates, allows evaluating options taking into account multiple criteria. Its main feature is that it enables the decision-maker criteria to include “soft” criteria, to resort to trials to evaluate the differences between options, and uses preference values for measuring the degree to which the options (projects, programmes and strategies) achieve the goals put forth in the criteria. It is a process that helps giving structure to the coherence of thought (Howard, 1976).

The MCDA method builds on a set of consistent judgments in a preference scale that allocates scores to each option. These scores constitute a single numerical scale that allows comparison of options with different units. This is possible because the methodology does not evaluate the importance of one criterion against another, but it compares the value of the change in units of one versus another. This methodology has been used as part of Portfolio Management of Strategic Projects (CPM) in various processes in the private and public sectors and its popularity emerges from the consistency of judgments made and the transparency of the analysis that combines social with technical elements. (Phillips, 2002).

The objective of the analysis is to provide an overall ranking of the options and consists of five steps illustrated in table 1. The first step has its basis in the utility theory. Utility is understood to reflect the inherent value that the decision-maker gives to the alternatives and on which depends the final decision (Howard, 1976). Basically, this step identifies and defines guidelines for evaluating the options (investments, programmes and projects) and in particular, it is the space in which the company can translate the meaning of ethics in a business context through explicit values.

MCDA Stages
1. Identification of objectives or criteria
2. Identification of options
3. Evaluation of options
4. Sensitivity analysis

Table 1: MCDA Stages

It is important to note that MCDA has no commutative property so that the order of the steps alters the result. Carrying out the identification of objectives as the first step before considering possible solutions avoids unnecessary ethical dilemmas.

Once these criteria and alternatives have been identified, they need to be evaluated. (step 4, Table 1). This procedure is performed by comparing all alternatives within each criterion, one at a time, in order to define the difference between the alternatives. This technique clarifies the situations in which there is an investment option X that is better at certain value, an option Y that give a best result at another value and an option Z that has the potential to give good results at both values but with a high level of risk.

In many cases the ethical dilemmas faced by decision-makers arise out of this tangle of interactions. The MCDA methodology is an effective tool to reduce complexity because the analysis is focused on answering what you value and how much you value each situation.

The MCDA methodology does not change the mentality of the decision maker. It is a process that can zoom in the decision-making and transform a process that in many occasions takes place unconsciously into an explicit sequence that moreover, is also transparent, auditable and systematic.

MCDA: A tool for learning

Decision making is a skill that is learned by doing, so having a tool that allows a continuous learning is essential to develop better decision makers. The MCDA is an effective learning tool because it meets the two requirements for authentic learning of complex situations (Sterman, 1994). On the one hand, the methodology allows for obtaining the knowledge and perceptions of decision makers and also allows for creating feedback structures on these knowledge and perceptions. This is important because we must not forget that decision-makers of a company are improvising in the sense that the problems they are facing are never the same since business context is in constant motion.

Therefore the MCDA processes allows for capturing the context of each decision, and permits decision makers to look back and compare information, perceptions and understanding of the reasons why certain courses of action have been chosen. This learning and continuous improvement cycle is achieved because there is real transparency in the evaluation of the options, and this goes beyond the simple formulation of possible business options. It means transparency in the participants, even including their different points of view, the flow of information, the definition of monitoring indicators and mainly the allocation of resources to implement strategies (Adam and Shavit 2008).

The crucial factor is that the integrity of decision makers will result from following rules of conduct consistently. The impartiality of the decision makers will emerge in the repetition of these rules, the result being a pattern of ethical decisions, while habits are not achieved by thinking or writing codes of ethics, but through actions. Consequently, integrity will affect both the decisions made as well as the action that they generate and that will define the strategy of the company.

This learning cycle has potential for success even in extreme cases in that there is no clear translation of ethics in explicit decision values because, like any addiction, the first step is to accept the problem and recognise that values are not put into practice and that for example, short term interests of investors are consistently put in the first place.

Conclusion

It is important not to confuse good decisions with good results. None of us can know the future, which means that we can take a decision that result in a bad outcome or vice versa. Of course, mistakes can happen but they will be less frequent and they won't be due to a limited analysis. What we do know with certainty is that the lower the quality of decision analysis, the worse the outcomes.

The proposed inclusion of a MCDA methodology has as an objective to zoom in on decision-making by allowing the definition of the values, measuring them on a common scale that permits comparison with each other. It is a practical alternative to address the complexity of the assessment of strategy and an honest way to put on the table the true motivation behind the investments and thereby give a way out of the conflict of interests or values that constantly are joined.

The real effort should not be focused on regulations or monitoring, if it is actually looking for creating values for the individual and develop decision makers that have integrity, and that are motivated by values not by rules and incentives; and with the courage and conviction to resist temptations. It is true that the learning and improvement of analysis in decision-making will grow gradually, but it will not take place if the first step that requires recognition of the true values of investment is not taken.

In my vision of future corporate practices, I see that MCDA

- is the method most often used for corporate representatives as a methodology of analysis of decisions during strategic planning and budget allocation.
- is a standard on the Boards of Directors and is known among its members as the method "multi-criteria" referring to the way in which directors account for the decisions that have been taken; i.e. the MCDA is the way in which information is shared and reports are given to investors about the reasons behind the evaluations made, the obstacles they face at the time and alternative actions that have been taken into account.

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