The Grey Area: Ethical Dilemmas in the Icelandic Business Community

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Abstract

Illegal and unethical behavior by large corporations in Iceland has caused increasing concern and debate during the past few years. This study seeks explanations for this kind of conduct. The main object of the study was to examine which external and internal factors contribute to increased risk of corporate misconduct.

The research is based on interviews with ten managers and middle managers of large corporations who were selected by snowball sampling and whose identities are hidden. The data was collected and analysed by using qualitative research methods. Because of the small sample size the results must be interpreted cautiously and the conclusions cannot be generalized.

The findings indicate that following the ratification of the *European Economic Union* in 1994 the laws relating to business changed and thereupon the moral values with regard to commerce were rapidly revolutionized. Icelandic society subsequently passed through a period of conflicts of standards which resulted in uncertainty about implementing them. This "anomic" condition increased the risk of illegal methods being used to reach corporate goals. New opportunities and greater emphasis on financial gain put increasing pressure on managers to meet these goals. At the same time the boards of directors neglected their regulatory duties and thus possibly a counterbalance was lacking. Top management set the ethical tone and if they select illegal means to obtain their goals it may produce an unethical organizational culture which favours and rationalizes this kind of behaviour. Clear government regulation in cooperation with the business community is the key to compliance and for ethical business standards to become widely accepted.

Keywords: Business, ethics, economics, government, Iceland, moral, unethical

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Introduction

This study focuses on the form of corporate misconduct which has been known as organizational crime. By the concept of corporate misconduct then, we focus attention on criminal acts which are the result of deliberate decision making (or culpable negligence) of those who occupy structural positions within the organization as corporate executives or managers. These decisions are organizationally based – made in accordance with the normative goals (primarily corporate profit), standard operating procedures, and cultural norms of the organizations – and intended to benefit the corporation itself (Clinard, 1983; Pearce, 2001; Shover, 1978). This study is the first of its kind in Iceland and focuses on the processes of price fixing, because it is interesting to explore what leads a group of respectful individuals to lawbreaking to serve the interests of the corporation.

Icelandic background

At the outset it is necessary to give a glimpse to the great structural changes that have taken place in the Icelandic business community since the early 1990´s. From the beginning of the last century, the Icelandic government dominated the entire local economic system. Political connections and political patronage was decisive in granting access to funds as the banking system was

owned and controlled by the government. Throughout most of the century restrictions and government interference characterized business, for example the policy on exporting and in competition.
In a short period in the early 1990´s, profound changes took place leading to a more open market economy which easily can be labelled as a revolution. A few stepping-stones marked the coming of new times, but one the most important changes followed Iceland´s entry into the *European Economic Area* in 1994. Government intervention with business decreased dramatically and instead of even the smallest matters being settled by political decisions it was now believed that business should be left to the control of corporations and the laws of the market. Walls splitting up markets between corporations were knocked down. Markets previously monopolized by government owned businesses were opened up and most importantly the banks and other state owned firms were sold to private parties. Restrictions were lifted off interstate commerce, not least on financial markets, which resulted in great surge of Icelandic businesses overseas. There have been reforms in the business sector, for example in business management and a stock market was formed with the listing of companies on the *Iceland Stock Exchange*. Major steps have been taken to increase freedom in business and corporate management, but at the same time new laws intended to put certain restrictions on the business environment have been introduced. In that sense the role of government did not really shrink in size, but changed in nature; it became more professional than political, with regulation rather than leadership. Competition restrictions have been lifted and competition now thrives on most markets, but meanwhile new laws and regulations, such as the competition laws are in constant development (Ministry of Business Affairs, 2004; Hannibalsson et. al., 2000).

Competition laws have however until recently only addressed corporate behavior, leaving out the role of individual actors. Because of this flaw in the law, the courts threw out a case against the CEO's of the three local oil companies, which had already been heavily fined (or about $20 million U.S. dollars) for their price fixing conspiracy. Perhaps the oil scandal, followed by the ensuing publicity, made the general public more aware of the cost corporations can cause by their actions. Public debate about corporate criminality has indeed been increasing over the past fifteen years in Iceland. At the same time a certain conflict of interests in the interaction of government officials and the business sector can be detected. It can best be described as the new capital taking over from the old; the political power losing its stronghold to the new giant corporate power. A clear example of this conflict was the mammoth investigation on a local firm *Baugur Group*, which was considered by many to have certain political undertones. This can probably be explained by the long history of government interference with business and speedy changes of the Icelandic business community towards free market principles in the past few years. For a long spell at least, government officials seemed hesitant to set a clear policy on government regulation of business. This may have resulted in a business community with somewhat unclear guidelines.

Methods

The main objective of this study was to answer the following question: What internal factors on the one hand and what external factors on the other hand contribute to illegal or unethical corporate behavior? The following research questions were among those used as a guideline:

- Have business morals been influenced by recent changes in the legal and political environment in Iceland?
- Does top management set the tone which might lead either to ethical or unethical behavior or to compliance with, or violation of the law?

- Can undue corporate pressure on middle management lead to commission of illegal or unethical behavior?

The key data comes through interviews with ten former and current middle managers of large corporations in Iceland. Data collection started in the beginning of March 2004 and concluded in June 2005. Two officials of the competition authorities were also interviewed. Because of the small sample size the results must be interpreted cautiously and the conclusions cannot be generalized. However the study gives insights into Icelandic business reality that has been largely hidden to public scrutiny until now.

Findings

External factors

In the world of big business you will find the so called "grey area" and it was frequently mentioned in the interviews. It indicates that in the business world certain behavior is considered to be on the verge of being legal on the hand and ethical on the other hand. This leads us to believe that the business environment not only abides by laws and regulations, but also the rules and standards it sets itself. Basically the rules can be understood as allowing individuals or businesses to go as far as you can get away with, in order to achieve your goals.

This thread has profound meaning for the study. First, it supports Sutherland´s theory (1983), that in the business sector certain definitions of behavior are isolated from the more widely known definitions in society. It gives us reason to believe that certain behaviour, regarded by top management of organizations as favourable to corporate needs, is defined as the laws and rules by which employees act upon.

Second, frequent mentioning of the grey area is important to the findings of this study because it indicates that the boundaries by which socially accepted business behavior is measured, have been unclear in recent years. Participants of this study tended to seek explanations for this uncertainty in the structural changes in the legal environment the Icelandic business world underwent over the last few years, resulting in revolutionized business methods. Participants in this study maintained that a condition of uncertainty was induced in the wake of these changes, where old standards had to be replaced as the business sector developed new sets of ethics.

Judging by the findings of this study regulatory agencies, such as the competition authorities, were poorly funded and unable to be efficient in their regulatory duties. Government regulation seems to have been hesitant and poorly organized in its policy regarding corporate misconduct and the general public took a long time to become more conscious of the development in the business world.

The findings indicate that more emphasis seems to be on quick financial gain and investment for the good of shareholders, instead of long term management ideas and stability in the industry for the good of the whole community. It can be stated that in the last years we have seen a conflict of standards as new sets of business morals have become more apparent to the public. What we have been witnessing in Iceland resembles in fact an *anomic* condition, as described by Durkheim (1964) in his theories. A clear consensus has been lacking of what is being accepted as ethical business behavior and what is deviance from that behavior. As long as the definitions of the government on the one hand, and the business environment on the other, are incompatible a greater risk of deviant behavior in the business sector is imminent (Cohen, 1995; Passas, 2000).

Internal factors

The findings revealed a great pressure to reach corporate goals. During the past few years, the boards of directors have put more emphasis on profits and looking after the interests of shareholders, than setting clear ethical guidelines in accordance with laws and regulations. The boards seem to have failed in their regulatory duties or their task to make sure that laws are being followed to the letter in the practice of the organization.

The data suggests that those working in an accepted organizational system intended to seeking profits by their own rules and ethical standards, do not feel any guilt while achieving these goals. Unless strong opposition to illegal corporate behavior exists rather than pressure to attain corporate goals by any means necessary. Participants in this study all agreed that the board of directors and the *Chief Executive Officer* are the ones who set the tone in the corporation. Counterbalance against profit demands which encourages employees to follow the law in their duties should therefore come from top management and the board. According to the data organizational actions are primarily shaped by the CEO. In an environment where regulative duties are neglected by the board of directors, the CEO seems to be able to lead his herd on whatever path he chooses to take. Moreover, the interviews showed there is no doubt that the top management makes all the important decisions and is responsible for how the organization is run. The laws that lead organizational actions are set by the CEO and with his actions he sets the tone for his employees.

Few of the participants had felt undue pressure as middle managers from their managers, and there is no conclusive evidence to suggest that such pressure can lead middle managers to use illegal methods. However there were indications that corporate crime is in fact an offspring of the organizational culture also largely a product of the CEO's example.

This was best described by the remarks of those participants coming from the oil industry (having been prosecuted for antitrust violations). They described the conspiracy of the oil companies as a part of a culture they had no choice but to participate in. They described having felt pressured to do uncomfortable tasks, but also described the silence about these more delicate matters as difficult. With silence the message was sent from the top that this was how things were supposed to be and they would not change.

A variety of justifications were used to defend the actions of the oil companies. The most popular was blaming the government and regulatory agencies or the environment the oil companies came from. It gives us a reason to assume that those who work within this realm do not really feel they are breaking the laws as they are obeying the laws that apply within the organization. These findings lend support to Sutherlands (1983) ideas about corporate crime being an offspring of differential association in the organizational culture.

Concluding Remarks

The results of this study show that the Icelandic business environment has changed dramatically in the past few years. This development may have created a condition where the risk of corporate misconduct was greater. The data shows increased risk of illegal corporate behavior when there is uncertainty about the rules of the game.

The lines are drawn by the chief executive officer and when the board of directors neglect their regulatory duties, by putting greater emphasis on profits, illegal methods may be viewed as a favorable option. When great demand for profits holds hands with uncertainty about accepted values can create an organizational culture which puts the laws within the corporation above government regulation. Top corporate executives could play a bigger role by speaking out publicly against unethical and illegal behavior in the corporate world. A clear message as to what is considered accepted behavior will only be delivered to the corporate world when a broad consensus to condemn illegal corporate behavior is obtained (Braithwaite, 1989). The key to compliance and social control on corporate misconduct is cooperation of government and businesses in formulating clearer regulation and ethical standards. One solution could be greater emphasis on self-regulation of industry by boards of directors. Some Scandinavian countries have had good experience with compliance officers in organizations of this kind. Yet, it is clear that more research in this area is needed. Hopefully this study can be of some help to further research and provide some insights into this field.

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