

Business Ethics and Decision Quality: Strengthening Leadership Judgment in Complex Environments

Leaders are required to make decisions in environments characterized by speed, ambiguity, competing stakeholder interests, and reputational exposure. In such conditions, the central challenge is not simply making fast or profitable decisions. It is making decisions that are right — legally sound, values-aligned, and sustainable over time.

Business ethics may not be the only factor that improves decision-making. However, it is a critical safeguard that ensures decisions are principled, defensible, and aligned with long-term organizational health.

Why Business Ethics Is a Strategic Imperative

Business ethics refers to the application of moral principles, policies, and values to guide individual and organizational conduct within the business environment.

While often associated with compliance, ethics plays a broader strategic role. It shapes how leaders:

- Manage conflicts of interest
- Protect confidential information

- Address inappropriate workplace behavior
- Enforce policies consistently
- Engage suppliers and external stakeholders
- Respond to operational pressures

“When ethics is embedded in leadership practice, it enhances consistency in decision-making. When it is sidelined, even technically strong decisions may introduce hidden risks.”

Organizations do not typically experience major ethical breakdowns overnight. More commonly, they experience gradual erosion through tolerated shortcuts, selective enforcement of rules, or rationalized exceptions.

The Leadership Cycle in Building an Ethical Organization



Ethical culture is sustained through consistent leadership action. The following five leadership responsibilities form a continuous cycle:

1. Develop the Code of Ethics

Define clear standards, boundaries, and principles that guide decisions across the organization

2. Communicate and Cascade Business Ethics

Ensure ethical expectations are consistently understood and translated into daily operations.

3. Role Model and Lead by Example

Demonstrate integrity through visible alignment between decisions, behavior, and stated values.

4. Encourage Ethical Behavior and Address Misconduct

Reinforce principled actions and apply standards consistently when violations occur

5. Create a Safe and Ethical Environment

Foster psychological safety and provide trusted channels for raising concerns. However, formal reporting systems alone are not sufficient if employees do not feel safe using them. Surveys show that approximately 43% of employees fear retaliation if they report misconduct, indicating that perceived personal risk remains a significant barrier to speaking up (Source: NAVEX Global, Ethics & Compliance Program Effectiveness Report).

This challenge highlights the importance of Psychological Safety, a concept introduced by organizational scholar Amy Edmondson. Her research shows that employees are more likely to raise concerns, share risks, and report problems when they believe they can do so without fear of punishment or embarrassment. Leaders therefore play a crucial role in reinforcing this environment—demonstrating through consistent actions, fair responses, and protection of confidentiality that speaking up is both safe and valued.



Ethical Decision-Making as Structured Discipline

Consider common workplace scenarios:

- A high-performing employee falsifies attendance records.

- A manager modifies a process outside approved procedures to meet a deadline.
- Scrap materials are taken from company premises under the assumption that they are insignificant.
- A senior leader expands a policy's coverage in a way that personally benefits them.
- Confidential information is shared informally without proper authorization.

Individually, some of these situations may appear minor or manageable. Collectively, however, they signal weakened decision discipline.

Ethical lapses often begin with rationalization:

- “It’s only a small amount.”
- “The intention was good.”
- “We needed to move quickly.”
- “This person has always delivered results.”

Without a structured ethical lens, leaders risk normalizing compromised judgment. Over time,

patterns of exceptions create cultural ambiguity, and ambiguity weakens governance.

Strong ethical cultures do not rely solely on personal integrity. They institutionalize structured decision processes that guide leaders through complex situations.

A Simple Way Leaders Can Approach Ethical Decisions

Ethical challenges rarely appear as dramatic incidents. More often, they emerge through subtle signals—unclear practices, inconsistent decisions, or situations where values and pressures collide. At NRI, we often guide leaders to think through ethical situations using a simple framework summarized by the acronym REAR:

- **Recognize the Ethical Issue** – Pay attention to early warning signs such as unusual requests, recurring process deviations, or situations where transparency is avoided.
- **Evaluate the Situation** – Pause to assess the situation objectively by considering legality, alignment with company values, and potential short- and long-term consequences.
- **Act with Accountability and Care** – Address the issue professionally by

listening to perspectives, responding appropriately, and upholding organizational standards.

- **Reflect and Strengthen Judgment** – After decisions are made, reflect on what influenced the judgment to continuously improve ethical decision-making.

While frameworks like REAR help leaders structure how they recognize, evaluate, act, and reflect on ethical situations, leaders also benefit from having simple decision checks they can apply in real time. Ethical challenges often emerge in fast-moving situations where leaders must make decisions quickly. In these moments, a practical set of guiding questions can help leaders pause and assess whether a decision aligns with legal standards, organizational values, fairness toward others, and their own personal integrity.

In our experience working with mid- to large-scale organizations, ethical behavior is rarely developed through abstract principles alone. It becomes most meaningful when explored through the kinds of dilemmas leaders encounter in their everyday decisions.

When leaders are invited to reflect on realistic scenarios, the range of responses is often striking—revealing how individual perspectives and values shape judgment. Yet through

dialogue and reflection, these differences often converge toward shared principles. It is through this process that organizational values move beyond statements and begin to shape how decisions are made and how people work together.

Used consistently, these simple checks help leaders move from reactive decision-making to deliberate ethical judgment, strengthening trust and reinforcing a culture of integrity across the organization.

Leadership as the Ethical Anchor

For ethics to evolve from policy to practice, leadership must translate values into everyday behavior. The way leaders communicate expectations, enforce standards, and respond to misconduct shapes the organization's ethical culture. Research from the Ethics & Compliance Initiative Global Business Ethics Survey shows that employees in organizations with strong ethical cultures report observing significantly less misconduct—about 20% compared with as many as 88% in organizations with weak ethical cultures. This suggests that when ethical standards are consistently reinforced, unethical behavior becomes less prevalent in daily operations.

Leaders shape an ethical culture by:

- **Setting and modeling ethical expectations** – Clearly communicating standards and demonstrating them through their own actions.
- **Using structured decision discipline** – Applying practical frameworks to guide ethical judgment in complex situations.
- **Building safe reporting channels** – Encouraging transparency so concerns can be raised without fear.
- **Aligning systems with values** – Ensuring performance management, recognition, and accountability reinforce ethical behavior.

Ethical leadership does not eliminate complexity or remove pressure. It does, however, anchor decision-making in principles that are legally sound, value-consistent, and sustainable.

“In environments characterized by scrutiny and rapid change, organizations look to leadership not merely for direction — but for integrity. That integrity, consistently demonstrated, is what

transforms business ethics from policy into practice. “

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Before joining NRI, she headed HR and OD functions in major corporations in the retail, petroleum, distribution, and manufacturing sectors, driving enterprise-wide capability building, succession pipelines, and organization design initiatives. Denise is a Certified HR Practitioner (CHRP) and Licensed Professional



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