CHAPTER 4

ADDRESSING INDIVIDUALS' COMMON ETHICAL PROBLEMS

INTRODUCTION

Here's the bad news about business ethics: your career can be irrevocably damaged if you mishandle an ethical issue. But there's also good news: many ethical issues in business are quite predictable. You can be fairly certain that during the course of your career, you'll run into myriad ethical problems such as a customer who asks for a special deal or terms in order to make the sale, or questions about the appropriate use of corporate resources, or discrimination of one sort or another. Since many ethical issues are somewhat predictable, you have a better chance of dealing appropriately with ethical problems if you think about what's likely to happen before it occurs. And you should now have tools to help you make better decisions.

Before we get into a discussion of ethical issues, however, it's important to look at the relationship that exists between you and your employer. Although most people don't sign a written contract on the day they join a company or organization, there is an implied contractual relationship of sorts between workers and employers. Both parties have expectations, and rights, and offer consideration to the other—all are characteristics of a contractual relationship. Your employer pays you in salary and benefits to perform a job, and your organization expects you to behave in a certain way; you have a responsibility to be "part of the family" and exhibit loyalty and other corporate "virtues" and to refrain from other, less desirable behaviors. On the other hand, you expect not only a salary for the work you perform but also a modicum of fairness. Most people expect employers to treat them decently and to provide an appropriate work environment. Whenever we discuss the employer-employee contract in this chapter, it's this complicated set of expectations that we're referring to.

So what are some typical ethical problems individuals face at work? We've compiled some of the more obvious ones and divided them into broad categories, including human resources issues, conflicts of interest, customer confidence issues, and the use of corporate resources. We address a number of specific topics under each broad category. To make it easy to follow, each topic contains the following information:

- What it is (a definition of the issue)
- Why it is an ethical problem

- How we can think about the issue
- Professional costs and possible penalties for ethical or legal transgressions
- Special notes and some topics that may include important information related to the topic

Identifying Your Values—and Voicing Them

Before we explore the various types of ethical problems covered in this chapter, we would like you to think again about what's important to you—in other words, what do you value? In Chapter 2, we discussed the various philosophical approaches to ethics, all of which can help you think through a dilemma. The principle-based approach encouraged you to think about your most cherished values. So, what happens if you think through a situation, figure out what to do based upon those values, and then hesitate to say or do what you believe to be ethical because of pressure that you feel from your organization's reward system or your boss or your peers? Once you've determined the right thing, how do you then do it? Well, according to some ethics experts at the Aspen Institute, it helps to practice.[1]

After World War II, researchers found that many of the people in Europe who had risked their own well-being to help others who were threatened by the Nazis did so because they had ''practiced'' making ethical decisions earlier in their lives by imagining themselves in hypothetical situations that challenged their values. They not only imagined these situations, but they also discussed their potential actions with others—what they might actually do if they encountered such a situation. Researchers theorize that this was a kind of ''pre-scripting'' that laid the groundwork for these people's later heroic actions. It was as if thinking about ethical issues long before they were actually confronted by the issues gave people a sort of head start in the moral courage department. The ''Giving Voice to Values'' program at the Aspen Institute is rooted in this interesting, worthwhile premise. Mary C. Gentile, the program director, writes that the approach starts with ''the assumption that we know what we want to do and then figuring out how we might make that happen—and then practicing our voice.''

The program encourages students of all ages to first consider their values (as we encouraged you to do in Chapter 2). What do you care about? When you think deeply about your life, what are the values that attract you or stir deep feelings within you? Most people, for example, gravitate toward honesty, respect, responsibility, compassion, fairness, and other similar values.

In addition to values, we all have a personal narrative, a self-story that can help us when we face tough ethical issues. As you think about your life story, it can be helpful to look back on your life and search for experiences that might provide a source of passion or strength in difficult times. We often think of these as life situations that build character. Many of the best leaders say that difficult life experiences were transformative and provided new meaning and direction to their lives. For example, surviving a life-threatening illness can make other workplace threats seem much less dire. You might say to yourself, "Speaking up to my boss in a respectful way isn't going to kill me," so why not? Daniel Vasella, CEO and chairman of the pharmaceutical company Novartis, had his first hospital experience at age 4 as a result of food poisoning. He contracted tuberculosis and then meningitis at age 8 and spent a year in a sanatorium. At age 10, he lost his older sister. These are just a few of the challenges Vasella faced as a boy. He vividly recalls the loneliness and pain of these experiences, but he also remembers the powerful impact of a few special people who treated him with care and compassion and who fueled his desire to help other people, ultimately by becoming a physician. He later decided that by becoming a leader in a health-care business, he could have even more impact and help more people than he could as a single practitioner.[2] So think about what your personal narrative is. What aspects of it might help give you the courage to do the right thing in tough situations?

Here's an abbreviated list of other self-assessment questions students are encouraged to consider as part of the Giving Voice to Values program:

1. Questions of purpose. What are your personal and professional goals? What do you hope to accomplish? What would make your professional life worthwhile?
2. Questions of risk. What is your risk profile? Are you a risk taker, or are you risk averse? What are the greatest risks you face in your line of work? What levels of risk can you live with, and which ones can't you live with?
3. Questions of personal communication style or preference. Do you deal well with conflict, or are you nonconfrontational? Do you prefer communicating in person or in writing? Do you think best from the gut and in the moment, or do you need time to reflect on and craft your communication?
4. Questions of loyalty. Do you tend to feel the greatest loyalty to family, work colleagues, your firm/employer, or other stakeholders, such as customers?
5. Questions of self-image. Do you identify yourself as being shrewd or naive? As idealistic or pragmatic? As a learner or as a teacher?

The point of this self-analysis is to first identify your own "self-story" or narrative—we all have one or are able to build one. Then, consider other personal characteristics that will help you find ways of behaving that align with your image of yourself. For example, if your own image of yourself is one of a bold, courageous character, you might be able to find a brave way of reacting to a situation—one that is aligned with the bold person you believe you are. And the converse is also true. If you are risk averse and timid, you may be able to find a way of reacting to a situation that is more "compliant" and that aligns with who you really are. The objective here, as you have probably already guessed, is to make it easier for you to voice your values and beliefs by creating a response and behavior that reflects your unique personality. Evaluating a dilemma through the lens of your own story makes it more likely that you will voice your values, and playing to your strengths makes it more likely that you'll stand up for what you believe.

The Giving Voice to Values program also encourages students to understand that values conflicts are absolutely normal. Far from being unusual or rare, ethical dilemmas happen all the time to everyone. The ethical dilemmas that we face every day test our ability to make good choices. If we anticipate the need to take risks—to make decisions that might turn out to be good ones or not—we will prepare ourselves. We'll internalize the idea that these situations are normal and survivable and that others are experiencing the same thing. These situations won't paralyze us.

Another important element of the program is to understand various communication techniques. *Voice* can mean dialogue or listening or other communication techniques such as researching and providing new data, questioning, negotiating, leading by example, identifying allies, and so forth. The point is that voice is not always about sounding off. In fact, it's more often about analyzing the situation, your audience, your own motivations and style, and then figuring out the best way to get your point across to others. In organizations, it can help greatly to find allies to support your viewpoint instead of being a lone voice, especially if you're bucking the system. Taking the time to convince allies to stand up with you for what you think is right can increase the chance that your viewpoint will prevail in the end.

The program also addresses the barriers we encounter in making decisions and voicing our beliefs—the reasons and rationalizations that can short-circuit our resolve. This part of the program asks us to identify the arguments that we're trying to counter, what's at stake for the various participants in the situation, how we might influence those we disagree with, and what is our most powerful argument. Some of these arguments are likely influenced by the barriers to good ethical judgment we discussed in Chapter 3.

Finally, the Giving Voice to Values program encourages students to consider choice: we all are capable of acting on our values, but sometimes we don't. The point of thinking about the issue of choice is to ensure that we understand that even the most ethical person may not always do the right thing. We make choices all the time that can reinforce our decision-making patterns or change them. If and when we make a mistake, we are capable of redefining ourselves the next time. The important point is to be self-aware, to acknowledge mistakes, and to be able to learn from them. To find out more about this impressive program, go to www.aspencbe.org/teaching/gvv/index.html.

Sometimes, voicing your values at work takes significant courage because of the risks involved. We'll talk later in this chapter about some of the potentially riskiest situations, where whistle-blowing (on your boss or your organization) becomes a possibility.

PEOPLE ISSUES

We use the term *people issues* to describe the ethical problems that occur when people work together. They can include privacy, discrimination, sexual and other types of harassment, or simply how people get along.

The word to remember when considering these issues is *fairness*. When most people think about fairness, they mean equity, reciprocity, and impartiality.[3] A situation is said to be equitable when something is divided between two people according to the worth and inputs of the two individuals. For example, in a situation where two people have shared responsibility for a project, one might ask: "Did we work equally hard? Did we receive equal shares? Most people think it's unfair when two people have performed the same duty but receive a different share of the reward. Another measure of fairness is reciprocity, or the fairness of exchanges: "You did this for me and I'll do that for you." Most people perceive a situation as being unfair if one person fails to hold up his or her part of a bargain. A third measure of fairness is impartiality: "Is the person who's going to listen to my story biased in some way, or has he or she prejudged the situation?" Most people think of fairness as being inconsistent with prejudice and bias.

Most protective legislation and corporate human resources policies also try to incorporate those elements. The goal is to hire, treat, promote, appraise, and lay off or fire employees based on their qualifications and not on factors like sex, race, or age. The goal is to level the playing field and create a fair environment where performance is the only factor that counts (equity), where employer-employee expectations are understood and met (reciprocity), and where prejudice and bias are not factors (impartiality).

It's important to remember that, to employees, fairness is not just about the outcomes they receive (pay, promotion, etc.). Employees care at least as much about the fairness of decision-making procedures and about the interpersonal treatment they receive when results are communicated. People are more likely to accept bad news if they believe the decision was made fairly and if the supervisor or organization explains the decision with sensitivity and care. An organization that uses fair procedures and treats employees with sensitivity sends a powerful message to all employees that it values them as important members of the community.[4]

Discrimination

> You and Lisa met five years ago when you were hired into the management training program of a large utility. Although you're now in different parts of the organization, you have managed to stay close over the years. Lisa recently had a baby and plans to take advantage of the full six months of maternity leave the company offers. She told you that she's definitely coming back to work after her leave and that her department has promised to hold her job for her. Meanwhile, you've seen a posting for her job on the company's website. You run into one of Lisa's colleagues in the hall and ask about the posting. He says, "Oh yeah, they're going to fill that job. But don't tell Lisa. She's got five more months to be a happy mom. Besides, they'll find something for her to do if she decides to come back."

Since discrimination by race, religion, national origin, sex, disability, and age is prohibited by federal law in the United States, many companies have defined policies prohibiting any kind of discrimination. Unfortunately, there can be quite a gulf between where corporate policy leaves off and reality begins. When people from various backgrounds get together to provide a service or manufacture a product, there surely will be people who have conscious or unconscious biases toward various groups, and there will be others who are simply ignorant of the effect their behavior has on others.

WHAT IS IT? Discrimination occurs whenever something other than qualifications affects how an employee is treated. Unequal treatment, usually unfavorable, can take many forms. Older workers who suddenly find themselves reporting to younger ones can be resentful since they feel younger workers lack experience. Younger employees can be tempted to ignore advice from older workers, who they feel are out of touch. The attitudes toward age will most likely become increasingly important over the next decade as the general population grows older.

Racial, ethnic, religious, or sexual stereotypes can creep into the behavior of even the most sophisticated individuals, even without their conscious awareness. The importance of being able to manage different types of people can't be overstated. In the United States, ethnic and racial minorities are growing faster than the population as a whole, and the U.S. workforce is becoming increasingly diverse.

In the case involving Lisa, the new mother, her maternity leave could result in discrimination. Although pregnant employees are protected by law (see "Why Is It an Ethical Problem?" which follows), in this case her time away from her job is clearly being viewed as a liability. Of course, employers have the right to replace workers who are on extended leave because of illness, disability, or other reasons such as finishing an education. The problem in Lisa's case is that her department seems to be doing an end run around her by keeping her in the dark while her job is filled. If Lisa knew what the department's plans were, she might shorten her leave or arrange a part-time working situation for a few months. But unless you, her colleague, tell her what you have found out, the job she left won't be the one she comes back to. It seems unfair to keep Lisa in the dark.

Discrimination can be a subtle or not-so-subtle factor not only in working relationships but also in hiring, promotions, and layoff decisions. People who don't fit a "corporate profile" may be passed over for advancement because they're female, or a member of a minority group, or too old, or for other reasons that may or may not be covered in protectionist legislation. Surely there are many barriers in the workplace, not just the glass ceiling that refers to barriers to female advancement. There probably are also barriers for people who are over 50 years old, or who have medical problems, or who are short, disabled, overweight, bearded, balding, or homosexual—any quality that varies from the "norm." And some employers create job requirements that could automatically eliminate certain employees, not because of their qualifications, but because of personal circumstances.

HOW CAN WE THINK ABOUT THIS ISSUE We can use the various theories described in Chapter 2 to analyze the situation. These theories can serve as various "lenses" that we can use in viewing a problem. None of these theories are likely to give us the perfect answer, but they'll help us think through the implications of an issue so that we can make a good decision.

Suppose we look though the consequentialist lens? Who are the stakeholders, and what are the harms and benefits to each? What could we do in this situation that would benefit the most people? If we think about it in that way, we might conclude that it's better to say nothing to Lisa. We might imagine that more people would benefit (at least in the short term) by Lisa's manager filling her old job right away. After all, Lisa's being away could cause problems for her coworkers. However, a longer-term perspective might cause us to ask how other women employees would respond to Lisa's seemingly unfair treatment. Their dissatisfaction could seriously harm the company. So, what is the best decision for society overall?

Looking through a deonotological lens would cause us to ask whether we have a duty or obligation to Lisa, our employer, or both. What values or principles are involved in this case? Using the Golden Rule, think of how you would want Lisa or your colleague to behave if the situation was reversed. Following Kant's categorical imperative, what kind of world would it be if employers routinely treated employees in this way? And, using Rawls's veil of ignorance, how would you make this decision if you had no idea if Lisa was a man or a woman?

Finally, if we think about virtue ethics and our own character, we would consider our intentions and motivations. We would also consider how professional human resources managers would think about this decision. We would ask ourselves how our decision would look to others if it were made public. What would our ethical role model or harshest moral critic think? If you consider your own character and what you value, what decision feels best? We might also consider some of the psychological issues described in Chapter 3. Are we considering all of the consequences of telling Lisa, or not? What could happen to her and you if you tell, or if you don't tell?

This situation could test what you as an individual really care about, which is important if you're going to lead an ethical life. It's also a way to begin assessing your own values and asking how you can act more consistently with those values, as we suggested earlier in this chapter when discussing the Giving Voice to Values program.

If you decided that the right thing to do was to take action on Lisa's behalf, how might you go about it? Whom would you approach, and what would you say? Or, would you consider providing Lisa with information so that she could act on her own behalf?

WHY IS IT AN ETHICAL PROBLEM? Discrimination is an ethical issue—beyond any legal protections—because it's at the core of fairness in the workplace. While concepts of fairness are incorporated in business law around the world, in the United States fairness is considered to be an inalienable right.[5] The U.S. government has attempted to ensure fairness and justice; the word *trust* is on every piece of currency, and the Pledge of Allegiance declares "with liberty and justice for all." In addition, the entire U.S. legal system has justice and the protection of individual rights as its cornerstone. Consequently, people expect fairness from organizations in general and specifically from their employers.

COSTS While laws and regulations governing fairness differ around the world, in the United States victims of discrimination can file under Title VII of the Civil Rights Act of 1964 with the Equal Employment Opportunity Commission (EEOC) or bring suit under tort or contract law. This legislation specifically prohibits discrimination based on race, religion, sex, color, and national origin. Groups specifically protected by Title VII include women, African Americans, Hispanics, Native Americans, and Asian Pacific Islanders. (Some states and local communities have added more protections, like sexual orientation and marital status, to that list.) The Pregnancy Discrimination Act of 1978 prohibits discrimination against pregnant women. The 1967 Age Discrimination in Employment Act extends protection to people 40 years of age and older. The 1973 Rehabilitation Act was the first federal legislation to protect disabled Americans against discrimination by federal, state, and local governments, agencies, and contractors. The Americans with Disabilities Act (ADA) of 1990 extended protection to the private sector by requiring all companies with more than 15 employees to make reasonable accommodations to employ workers with disabilities. Although the law doesn't list conditions or diseases that are protected—since people react differently to disease, some may be disabled and some may not be—some conditions are specifically included or excluded. HIV infection, for example, is considered a disability; people who have it are protected by the ADA law. Indications of how costly bias suits can be for corporations are evident in several recent judgments: in 2005, UBS (Europe's largest bank) was ordered to pay damages of $29 million to a single plaintiff—a woman who complained of unequal treatment.[6] In other cases, a judge awarded $70 million for gender discrimination to 2,800 female employees of Morgan Stanley who were registered financial advisors,[7] and an arbitration panel in New York ordered Merrill Lynch to pay more than $100 million to a group of women who were found to have been discriminated against.[8]

Discrimination lawsuits can be costly for employers not simply in terms of legal fees and damages and media coverage. The morale of victims certainly suffers as they endure discrimination lawsuits, but the morale of other employees can also suffer. Imagine how the thousands of employees of Texaco must have felt when their company was under siege for a discrimination lawsuit. It's embarrassing for employees when the company they work for is publicly accused of wrongdoing.

If you're an individual accused of discriminating against another employee, the least you'll endure is an investigation. If you're found guilty, you'll probably be penalized or even fired. If you're found innocent, you or your accuser will most likely be counseled about your behavior and its effects, and one or both of you may be transferred to another area. If you manage someone who has been accused of discrimination, expect a lot of questions concerning why you were unaware of it or tolerated it. If you were aware of it and didn't do anything about it, be prepared for disciplinary action, particularly if a lawsuit results.

SPECIAL NOTE The many programs that train employees to "value diversity" can seem at odds with the efforts to assimilate various groups and especially with the laws and policies that prohibit discrimination. Learning to appreciate differences flies in the face of what many of us are taught from the time we're children—that we should "fit in." Many of us are taught not only to downplay our own uniqueness in an effort to blend in but also to ignore differences in other people. We usually are taught "not to notice" different colors, religions, accents, ways of dressing, and physical disabilities or abilities. Even sexual differences, which can be hard to ignore, have been played down in the not-too-distant past.

Valuing diversity means treating people equally while incorporating their diverse ideas. Discrimination means treating people unequally because they are, or appear to be, different. Valuing diversity is a positive action, while discrimination is a negative action. Valuing diversity tries to incorporate more fairness into the system, while discrimination incorporates unfairness into the system. The key to valuing diversity is understanding that different doesn't mean deficient, and it doesn't mean less. Different means different.

Harassment, Sexual and Otherwise

As women began to enter the workforce in great numbers in the 1970s and 1980s, and as social and business mores began to change, sexual harassment became an issue in the workplace. Forty years later, it is still an issue and many companies have paid huge fines in sexual harassment lawsuits. As a result, the EEOC now requires all organizations with more than 15 employees to have a sexual harassment policy and to train employees in these issues. Another result was a growing apprehension by employees, especially men, toward workers of the opposite sex. Sometimes the line between friendly and offensive is blurry.

> One of your coworkers is Joanne, a computer whiz with an offbeat style and a great sense of humor. Two of Joanne's favorite "targets" are you and Bill, another coworker who tends to be quite standoffish in his business relationships. Joanne is the department clown and is forever goading you and Bill; you, because you're a great audience and clearly think she's hilarious; Bill, because she likes to try to get him to be more approachable. Joanne frequently alludes to sexual subjects and has called both you and Bill "little alley cats" and "studs." While Joanne's behavior doesn't offend you at all, you're surprised when Bill approaches you in the men's room and bitterly complains about Joanne's constant teasing.

WHAT IS IT? Sexual harassment is defined as unwelcome sexually oriented behavior that makes someone feel uncomfortable at work. It usually involves behavior by someone of higher status toward someone of lower status or power. Sexual harassment claims are not limited to women either. The EEOC (www.eeoc.gov), reported receiving 11,731 sexual harassment charges in 2008, and almost 16 percent of sexual harassment claims were made by men.

Federal law has defined two types of sexual harassment: quid pro quo and hostile work environment. *Quid pro quo* harassment means that sexual favors are a requirement—or appear to be a requirement—for advancement in the workplace. *Hostile work environment* means that a worker has been made to feel uncomfortable because of unwelcome actions or comments relating to sexuality. This type of sexual harassment is especially murky because it is like beauty: it's in the eye of the beholder. What constitutes sexual harassment for one person may not be so for another. Putting an arm around a person's shoulder may feel like harassment to one individual, and someone else may be comfortable with such a gesture. This type of sexual harassment includes not only physical gestures but also remarks of a sexual nature—even compliments—and displays of sexually provocative material, like nude or revealing photographs, in an office.

In both types of sexual harassment, the decision about whether the behavior constitutes harassment is determined from the viewpoint of a "reasonable" person, and the harasser's intentions aren't considered. This is why sexual harassment issues can be confusing. Since sexual harassment is determined by the reaction of the victim, you have to consider not what you mean by your comments or actions, but how they might be interpreted by the other person.

Most people will readily agree that patting a coworker on the rear end is sexual harassment. But are you sexually harassing someone if you compliment her appearance, or touch his arm, or make jokes of a sexual nature? In Joanne's case, she hasn't done a very good job of considering exactly who her audience is and how each of her two coworkers might react to her jokes. While you might think it's funny to be called a little stud, Joanne probably should think more carefully about how someone like Bill might react to being called a name with sexual connotations. Is Joanne out of line? Is Bill overreacting? According to the law, it doesn't matter if you and Joanne think Bill is overreacting. The yardstick for determining whether sexual harassment occurred will be how uncomfortable a reasonable person would be with Joanne's comments, and not what Joanne intended with her remarks. How Bill *felt* will be considered more than what Joanne *intended*.

HOW WE CAN THINK ABOUT THIS ISSUE Consider how a consequentialist might think about this situation. Can you identify all of the stakeholders and the harms and benefits to each? What are your options? What action on your part would benefit the most people and harm the least, thus contributing the most to societal good? Now use another lens: Do you have ethical duties or obligations here? What are those and to whom? What ethical principles apply to this situation, and what rules would help you decide what's right? For example, if the situation was reversed and you were in either Bill's or Joanne's shoes, how would you like them to help you?

You might think about the "reasonable person standard" as providing insight into the relevant ethical community. How would a reasonable person assess the situation and determine the right thing to do? How would you feel if Bill spoke to a reporter and this situation appeared in the local newspaper? If you do nothing in this case, would you be chagrined to read about it in the newspaper? Could you proudly describe your actions to your mother or your priest (or minister, rabbi, imam, etc.) without embarrassment?

Think about your organization's culture. What values does your organization hold dear? Most companies pride themselves on being places where all employees can feel respected. If you look at your company's values statement, you'll likely find verbiage about respect. Given that value of respect, what would your manager and others in positions of authority in your organization want you to do?

If you decide to act on your values, you have quite a few options. One option is to nip this issue in the bud by helping Bill address it with Joanne. Perhaps Joanne is unaware of the effect her comments are having on Bill. You could encourage Bill to talk with her, explain his reaction, and request that she stop. You could role-play Joanne to give Bill the opportunity to practice what he is going to say. What could Bill say to Joanne, and how could he say it in a way that will likely achieve his intended result and allow the parties to continue working together in the future? If Bill is unwilling to do this, what other options do you have? You could report the issue to the organization's ethics help line, but would it be appropriate to do that without Bill's permission? Under what circumstances would you report something that affected a coworker without that person's permission?

WHY IS IT AN ETHICAL PROBLEM? Harassment (sexual or otherwise) is considered to be a form of discrimination. It is therefore an ethical issue because it unfairly focuses job satisfaction, advancement, or retention on a factor other than the employee's ability to do the job. Most instances of sexual harassment have nothing to do with romance and everything to do with power and fairness.

COSTS Victims of sexual harassment can file under Title VII of the Civil Rights Act of 1964 with the EEOC, or they can bring suit under tort or contract law. An employer can be held liable for an employee's sexual harassment activities if the employer had knowledge of the conduct and did nothing to correct it. As a result, most companies take a sexual harassment charge very seriously.

Responsible companies will launch an immediate investigation if someone is accused of sexually harassing another employee. If this is a first-time event and the incident that prompted it is not determined to be lewd or violent—think of the scenario featuring Joanne, discussed earlier—the employee may be warned, disciplined, or transferred to another area. (However, in some major companies a first-time offense is enough to get someone fired.) If the behavior is judged to be lewd or forceful, or if there's evidence that the employee has demonstrated a pattern of behavior, the employee will most likely be fired—and often very quickly. (One corporation was able to conduct an investigation, find evidence of a pattern, and terminate the harasser in less than 48 hours.) If the accused is found innocent, or if it's determined that a misunderstanding exists between the two parties, the accused and the accuser will probably be counseled by human resources professionals. If necessary, one of the parties may be transferred to another area. The manager of a sexual harasser can expect a lot of questions. If the manager was aware of harassment and did nothing about it, he or she should be prepared for disciplinary action, particularly if a lawsuit results.

Nearly a third of the claims filed with the EEOC are sexual harassment claims. And sexual harassment lawsuits are very expensive for corporations. Awards to victims have been substantial, as is the toll such charges can take on coworker's morale and on the firm's ability to hire qualified candidates. For example, in June 1998, Mitsubishi Motors' North American division agreed to pay $34 million to settle its sexual harassment case. The settlement was based on charges brought by 350 female factory workers at an Illinois factory. The women alleged that coworkers and supervisors kissed and fondled them, called them "whores" and "bitches," posted sexual graffiti and pornography, demanded sex, and retaliated if they refused. They also complained that managers did nothing to stop the harassment. Besides paying the fine, Mitsubishi fired 20 workers and disciplined others. The company also agreed to provide mandatory sexual harassment training, revise its sexual harassment policy, and investigate future sexual harassment allegations within three weeks of a complaint.[9]

A NOTE ABOUT OFFICE ROMANCE Flirtations and office romance are a part of work life. After all, we spend most of our time at work, interacting with people who share our interests, and we have an opportunity to really get to know them. So why not engage in a consensual relationship with a coworker? Well, it's true that most office romances are benign, and quite a few of them either end quietly or may even lead to happy marriages. But such relationships can also be dangerous; in fact, these are the stories we end up hearing about. For example, if a relationship ends badly, one party may accuse the other of sexual harassment or retaliation, thus requiring the company to get involved after the fact. From an ethics perspective, it's most important to avoid romance with anyone you supervise or who supervises you because of the conflict of interest involved and the potential for unfair treatment of other direct reports (most companies have antinepotism policies). The supervisor's judgment is likely to be compromised by the relationship, and others in the work group are likely to lose respect for both parties and be concerned about preferential treatment. Honesty is another ethical issue that emerges. Because you don't know where the relationship is going, it's tempting to keep it to yourselves at first. Even if you're discreet, word travels fast in work groups, and others are likely to find out via the grapevine. It's best to be honest and keep your supervisor in the loop. If you work in the same department, the organization may want to move one of you to avoid any negative repercussions. And finally, remember—if you don't think your behavior would look good on the front page, it's best not to engage in it.[10]

CONFLICTS OF INTEREST

People and corporations are naturally involved in a tangle of relationships, both personal and professional. Your personal reputation and the reputation of your company are inextricably tied to how well you handle relationships with other employees, customers, consultants, vendors, family, and friends. Your ability to act impartially, and look as if you are acting impartially, is key to your fulfilling your end of the employer-employee contract.

> Your daughter is applying to a prestigious university. Since admission to the school is difficult, your daughter has planned the process carefully. She has consistently achieved high marks, taken preparatory courses for entrance exams, and participated in various extracurricular activities. When you tell one of your best customers about her activities, he offers to write her a letter of recommendation. He's an alumnus of the school and is one of its most active fund-raisers. Although he's a customer, you also regularly play golf together, and your families have socialized together on occasion.

What Is It?

A conflict of interest occurs when your judgment or objectivity is compromised. The appearance of a conflict of interest—when a third party could think your judgment has been compromised—is generally considered just as damaging as an actual conflict.

A recent example of a conflict of interest likely contributed significantly to our financial crisis. Rating agencies such as Standard & Poor's rated the complex mortgage-backed securities we described in Chapter 1. A triple-A rating made investors feel secure about buying these securities. As Americans learned the hard way, however, many of these securities were not deserving of anything near such a high rating. Many factors contributed to the debacle (including the fact that rating agencies were using old methods to rate these newfangled products). A major contributor was a serious conflict of interest—the rating agencies are paid by the companies whose securities they rate, thus making it difficult or impossible to assign truly objective and unbiased ratings.

Another example might be of particular interest to college students. In 2007, the University of Texas fired its director of financial aid when it learned that he had financial ties to particular student loan companies that he then touted to students and peers. Students were not steered toward companies that provided the best loans or service, but toward those that provided gifts (including stock) to the director of financial aid.[11]

If a customer offers to do a favor for you—or your daughter or another family member—here are some of the questions you'll need to ask yourself: Would your customer's offer influence your business relationship? Would someone think your business judgment had been compromised by accepting your customer's offer? Is your relationship more than just a business one, so that accepting an offer could be interpreted as a simple act of friendship?

Some corporations have a policy that permits the acceptance of favors from customers or vendors if there's also a "friendship" present; and these companies usually define *friendship* as a long-standing relationship that's well known in the community. For example, in small towns where everyone knows everyone else, many of a business owner's customers are also his or her friends; it's unrealistic to expect anything else. Other organizations (including government agencies) would discourage accepting a favor like this one under any circumstances. Here are some things to consider when making your decision in this case: How long have you been friends with your customer? How well known is the relationship in your community? What is his knowledge of your daughter's qualifications? Does your customer expect anything in return for his recommendation, or is the letter simply a gesture of friendship with no strings attached? How would others perceive his recommendation?

Almost every business situation can involve conflicts of interest. A conflict can occur when a vendor lavishly entertains you or when you entertain a customer—if the object is influence. Both situations could prompt an observer to think that a special deal or advantageous terms are part of the relationship. Conflicts of interest can occur when people who report to you observe that you have an especially close friendship with one of their coworkers. Conflicts can occur when you're asked to judge the creditworthiness of your neighbor or if you perform consulting work for your employer's competitor. They can involve accepting handtooled cowboy boots from an advertising agency, being sponsored for membership in an exclusive private club by a consulting company, or allowing a supplier to give you a discount on equipment for your home when you place an order for your office.

Common conflicts of interest include overt or covert bribes and the trading of influence or privileged information.

OVERT BRIBES OR KICKBACKS Anything that could be considered a bribe or kickback is a clear conflict of interest. It doesn't matter whether the bribe or kickback is in the form of money or something else of substantial value that is offered in exchange for access to specific products, services, or influence.

SUBTLE "BRIBES" Bribes can be interpreted to include gifts and entertainment. Some organizations have instituted policies that allow no gifts at all, even gifts of nominal value. For example, we know of one teaching hospital that does not allow its employees to accept even a notepad or pen from pharmaceutical company representatives. They asked themselves, how will patients feel when we write a prescription for a product with a pen from the manufacturer? Won't the patient wonder if we're writing that prescription because it's really needed or because we've accepted such gifts? Many organizations have a policy that allows gifts of small value and places a ceiling of $25 to $100 on the value of gifts employees can accept from, or give to, customers or vendors. Reciprocity is one yardstick often used for determining whether a gift or entertainment is acceptable. If you can't reciprocate with the same kind of gift or entertainment being offered to you, it's probably inappropriate to accept it. For example, if a supplier offers you tickets to the Super Bowl, or a weekend of golf, or dinner for four at a $200-per-person restaurant, it's probably inappropriate for you to accept under any circumstances. The emphasis on reciprocity is to maintain a fair, even playing field for all suppliers, so that you (as a purchaser) will be unbiased when making a decision about a supplier. As mentioned earlier, both reciprocity and impartiality are elements of fairness.

Accepting discounts on personal items from a vendor will also be interpreted as a conflict. The formula to use when determining whether to accept a discount is simple: if it's a formal arrangement between your company and a supplier and it's offered to all employees, it's probably acceptable; if the discount is being extended only to *you*, it's generally not considered acceptable.

INFLUENCE Your relationship with someone in itself can constitute a conflict of interest. For example, if you're in charge of purchasing corporate advertising and your cousin or neighbor or college friend owns an advertising agency, it will be considered a conflict if you make the decision to hire that firm. That doesn't preclude the firm from bidding, but it does preclude you from making the decision. If a decision involves anyone you have a personal relationship with, you should recuse yourself from the decision making. Another way to avoid the appearance of a conflict in a situation like this one, which is charged with issues of partiality, is to arrange for a "blind" competition, where the identity of various bidders is known only by someone not involved in the decision-making process. However, since any decision made by you in such a case will be suspect—even in blind evaluations—you should include other employees in the decision-making process.

PRIVILEGED INFORMATION As an employee, you're naturally privy to information that would be valuable to your employer's competitors. That's why it's generally considered a conflict of interest if you hold a full-time job for ABC Insurance Company and decide to do some consulting work for XYZ Insurance Company. There are certainly exceptions to this rule of thumb. If you're a computer programmer at Green's Restaurant, for example, it probably isn't a conflict to wait on tables at Red's Restaurant. Two factors could make such a situation acceptable: if the work you perform at your second job doesn't compromise the work you do at your first one, and if both employers are aware of your activities. Transparency is the best policy.

In addition, it can appear as if you're involved in a conflict if you and a close relative or friend work for competitors, or if one of you works for an organization—such as a media company—that might have a particular interest in your company's activities. For example, if you work as an investment banker for Goldman Sachs and your sister holds the same position at Morgan Stanley, you both should alert your managers to the situation. These are potential problems that can be defused when your manager knows about the relationship. Full disclosure removes substantial risk.

How We Can Think about This Issue

The prescriptive ethical decision-making lenses can be helpful when considering conflicts of interest. For example, using a consequentialist approach encourages us to think about what would benefit the most people. Suppose that your brother owns an advertising agency, and you have to place ads as part of your job at another firm. Will hiring your brother benefit anyone other than your brother? Might it not harm your organization's reputation if others learn about the relationship? Using the deontological approach raises other issues. It's probably most relevant to consider what's fair. What decision would place all bidders on a level playing field? What could you do that would make the bidding absolutely fair and unbiased? Isn't that the kind of world you would most like to live in? In fact, the veil of ignorance would ask you to act as if you didn't know that the person leading the advertising agency was your brother. What if you were the CEO of a competing advertising firm? Wouldn't you want a shot at the business? Think about looking at this issue through the lens of virtue ethics. What could you do that you wouldn't mind reading about in your local newspaper? You probably would want to read about your impartiality as a purchaser and as a representative of your company. You would not want to read that the contracts you enter into are rigged to benefit your family and friends.

This is also a good place to think about how you might handle these issues and to discuss your ideas out loud and with others. You will absolutely experience some of these conflicts—everyone does—and just as "rehearsals" helped the World War II rescuers, thinking about these situations in advance could greatly help you when the time comes—as it surely will. Imagine that your brother's company is experiencing rough times, and he tells you that he expects you to help. Once you have decided that it is unethical to do so, what will you say to him to explain your decision? Do you think you can do it in a way that will preserve your relationship? Here is where company policy can actually help employees a great deal. If you work for a company with a clear policy regarding conflict of interest, you could point to that and explain to your brother that you're obligated to abide by the policy and remove yourself from the decision making.

Why Is It an Ethical Problem?

The basis of every personal and corporate relationship is trust, and it exists only when individuals and corporations feel they're being treated fairly, openly, and on the same terms as everyone else. Conflicts of interest erode trust by making it look as if special favors will be extended for special friends; that attitude can enhance one relationship, but at the expense of all others.

Costs

Depending on the offense, myriad federal and state laws cover conflicts of interest. Certain professions, such as banking, accounting, law, religion, and medicine, have special obligations—often spelled out in professional codes of ethics—commonly referred to as fiduciary responsibilities. These professions are widely known as the trust professions, meaning that these practitioners have been entrusted with sensitive, confidential information about their clients. Fiduciary responsibilities concern the obligations resulting from relationships that have their basis in faith, trust, and confidence. After the financial debacle of 2008, much attention is being paid to fiduciary responsibilities. A recent survey of private banks and wealth management companies by the accounting firm PricewaterhouseCoopers (PWC) indicated that the "economic crisis has presented client relationship managers with challenges that they have neither the experience nor the skills to deal with." In the survey, only 7 percent of the relationship managers felt they had enough training to meet the highest standards expected of them. The PWC survey noted that the old model for managers, which focused on sales, was being replaced by a model that focuses on fiduciary responsibilities.[12]

If you're suspected of a conflict of interest, the least you can expect is an investigation by your company. If it determines that your behavior demonstrates a conflict or the appearance of a conflict, you may be warned, disciplined, or even fired depending on the nature of your behavior. If you've accepted a bribe or kickback, you could face termination and even arrest. Being involved in a conflict of interest means that your judgment has been compromised, and this can severely damage your professional reputation. Consider that in 2006, the Jeffries Group was fined $5.5 million by the National Association of Securities Dealers (NASD) for conflicts of interest concerning Fidelity Investments. A Jeffries trader with a $1.5 million expense account lavished gifts and entertainment on Fidelity traders, including trips to Las Vegas and Palm Beach, cases of wine, and custom golf clubs. Throwing money at Fidelity apparently worked: Jeffries ranked 50th in 2002 in brokerage commissions received from Fidelity. By 2005, Jeffries had moved up to 15th place. As a result of this activity, the Jeffries broker was fired, the firm and the industry were investigated, the firm was fined, and the practice has received reams of negative press.[13]

CUSTOMER CONFIDENCE ISSUES

We've all heard the saying, "The customer is always right," and companies like L.L. Bean and Sears have benefited by weaving that slogan into the fabric of their corporate cultures. But excellent customer service is more than being able to return a defective refrigerator or having cheerful customer service representatives (although that helps). Excellent customer service also means providing a quality product or service at a fair price, honestly representing the product or service, and protecting the customer's privacy.

What Is It?

Customer confidence issues include a range of topics such as confidentiality, product safety and effectiveness, truth in advertising, and special fiduciary responsibilities.

> You work for a consulting company in Atlanta. Your team has recently completed an analysis of Big Co., including sales projections for the next five years. You're working late one night when you receive a call from an executive vice president at Big Co. in Los Angeles, who asks you to immediately fax to her a summary of your team's report. When you locate the report, you discover that your team leader has stamped "For internal use only" on the report cover. Your team leader is on a hiking vacation, and you know it would be impossible to locate him. Big Co. has a long-standing relationship with your company and has paid substantial fees for your company's services.

CONFIDENTIALITY Privacy is a basic customer right. Privacy and the obligation to keep customer information in confidence often go beyond protecting sales projections or financial information. It can also mean keeping in strict confidence information concerning acquisitions, mergers, relocations, layoffs, or an executive's health or marital problems. In some industries, confidentiality is so important an issue that companies prohibit their employees from publicly acknowledging a customer relationship. In the financial services industry, for example, it's common practice to refuse to divulge that XYZ Company is even a customer.

In the case involving Big Co., an executive is demanding access to a confidential report. First, are you absolutely certain that the caller is indeed a Big Co. executive? Competitive intelligence work often involves deceptively impersonating a client or someone else. If you have conclusively verified her identity, do you know whether she has clearance from Big Co. to examine your team's report? If she does have clearance, is your team's report in a format that your company wants to share with Big Co., or does it need revision? Think about what you read in Chapter 2—how would you feel if your actions in this case were reported on the front page of your local newspaper? Do you think readers would be critical of what you plan to do? What would they say? Whenever you see "For internal use only," that's what it means, and it can be enormously risky to release the report to anyone—including the customer—without permission from someone within your company who has responsibility for that client. In a case like this one, you should track down someone who's in a position of authority in your company—your manager's manager, perhaps—before you override the warning on the report and release any information.

On occasion, third parties may ask for customer information. For example, a reporter or a client may ask you about customer trends. It's never acceptable to discuss specific companies or individuals with a third party or provide any information that might enable a third party to identify a specific customer. If you want to provide information, you can offer aggregate data from a number of companies, as long as the data doesn't allow any one customer to be identified.

> You're the head of marketing for a small pharmaceutical company that has just discovered a very promising drug for the treatment of Alzheimer's disease. You have spent months designing a marketing campaign that contains printed materials and medication sample kits for distribution to almost every family physician and gerontologist in the country. As the materials are being loaded into cartons for delivery to your company's representatives, your assistant tells you that she has noticed a typographical error in the literature that could mislead physicians and their patients. In the section that discusses side effects, diarrhea and gastrointestinal problems are listed as having a probability of 2 percent. It should have read 20 percent. This error appears on virtually every piece of the literature and kits, and ads containing the mistake are already on press in several consumer magazines.

PERSONAL RESPONSIBILITY Another basic customer right involves our taking personal honesty and responsibility for the products and services that we offer. There's probably no issue that will more seriously affect our reputation than a failure of responsibility. Many ethical disasters have started out as small problems that mushroomed. Especially in service businesses, where the "products" are delivered by individuals to other individuals, personal responsibility is a critical issue.

In the case concerning the typographical error about a new drug's side effects, the head of marketing faces a nasty dilemma. If she reproduces all of the printed material, it could be at a very great cost to this small company, and it may result in a significant delay in getting the drug to physicians. However, since many elderly people are prone to gastrointestinal upsets and can become very ill and even die as a result, this typo is a significant one. The material cannot go out as is. Certainly the ideal solution would be to redo all of the marketing materials. However, if time and financial considerations prohibit that, there are other solutions. One solution might be to quickly produce a "correction" to be inserted into every kit. Also, a letter could be distributed to every physician to explain the correction as well as emphasize your company's commitment to quality and full disclosure. This solution will still be costly, but not nearly as costly as doing nothing and letting the kits go out with an error. What do you suppose would be the cost of even one wrongful death lawsuit? How about a class action? How about the accompanying publicity?

TELLING THE TRUTH Many salespeople simply exaggerate their product's (or service's) benefits to consumers. Do fast sports cars automatically turn every young man into a James Dean? Will investing in a certain bond ensure you a safe retirement? Hype is generally a part of most sales pitches, and most consumers expect a certain amount of hype. In other cases, however, fudging the truth about a product is more than just hype—it's unfair.

Imagine that your financial firm is offering a new issue—a corporate bond with an expected yield of 7 to 7.5 percent. In the past, offerings like this one have generally been good investments for clients, and you have sold the issue to dozens of large and small clients. You're leaving on a two-week vacation and have only a few hours left in the office when your firm announces that the yield for the bond has been reduced; the high end will now be no more than 7 percent. The last day of the issue will be next week, while you're away on vacation. What should you do?

The fact is that your customers have been misled (albeit unintentionally) about the yield on that particular bond, and now you are under an obligation to tell the truth about the instrument before the issue closes. Why? Because another basic consumer right is to be told the truth about the products and services purchased. Failure to tell the truth about a product can be devastating for an organization, and it also can cause big problems for the company employees who are involved in perpetuating the false information.

SPECIAL FIDUCIARY RESPONSIBILITIES As discussed earlier in this chapter, certain professions, such as banking, accounting, law, religion, and medicine, have special obligations to customers. These obligations are commonly referred to as fiduciary responsibilities. The law and the judicial system have recognized these special obligations, and they are spelled out in the codes of ethics for those professions. Fiduciary responsibilities hold these professionals to a high standard, and when they violate those responsibilities, the punishment is often harsh. For example, some employees of Arthur Andersen's Houston office failed Enron shareholders when they allowed the high-risk accounting practices used by Enron to continue. Although David Duncan, leader of the Andersen auditing team at Enron, warned the Enron board of directors in 1999 that the firm's accounting practices were "high risk," he apparently did not take the extra steps that would have been required to get the board to take action (in fact, the board did nothing in response to his warning).[14] For example, Duncan could have threatened to withdraw Andersen's services or to turn the company in. At the time this would have looked risky because Enron might simply have fired the auditors, and Andersen would have lost a huge client. But in hindsight, exercising appropriate fiduciary responsibility could have saved two companies, thousands of jobs, and a huge amount of shareholder wealth. Al Bows, an accountant who helped open the Arthur Andersen office in Atlanta in 1941, said that the founder of his old company, the original Arthur Andersen, would be "disgusted with what these guys did to his company." Bows went on to tell a story about a big juice company in Atlanta. He discovered that "the CEO was starting another juice company on the side to profit for himself. I told him he'd better cut it out or I'd turn him in. He stopped. But he was mad."[15] Of course, Bows is describing the fiduciary responsibilities of accountants—one of which is to ensure the financial integrity of publicly traded companies. When Arthur Andersen employees breached their fiduciary responsibilities in 2001, they contributed to the collapse of a major company.

Here's another case:

> For 12 years, you've been the financial advisor for an elderly man in his late 70s who is an active investor of his own portfolio and for a trust that will benefit his two children. In the last few months, you've noticed a subtle, yet marked change in his behavior. He has become increasingly forgetful, has become uncharacteristically argumentative, and seems to have difficulty understanding some very basic aspects of his transactions. He has asked you to invest a sizable portion of his portfolio and the trust in what you consider to be a very risky bond offering. You are frank about your misgivings. He blasts you and says that if you don't buy the bonds, he'll take his business elsewhere.

If you work for a large electronics chain, it's not your responsibility to assess the mental stability of a customer who's purchasing a new television. You're selling; he's buying. However, individuals in fiduciary professions have a responsibility to protect their customer's assets—and that entails "knowing" their customers; frequently, that can mean assessing behavior and saving customers from themselves. In this case, if a customer wants to make a risky investment against your advice, there's little you can do but wish him or her well. Who knows? You might be wrong, and the customer might make a fortune. However, if a financial professional sees clear signs of incompetence in a longtime customer who's suddenly interested in making a risky bet, he or she is under some obligation to seek help. The case involving the mental stability of a longtime customer is one of the most common dilemmas encountered by financial advisors. As his advisor, you could try again to dissuade the client from making the investment, or you could involve the firm's senior management in negotiations with the client. You could contact a member of the client's family—one of the children perhaps—and explain your reservations. You could also possibly contact the client's lawyer or accountant, who also would be bound by confidentiality constraints because of the fiduciary nature of their professions. However, most financial executives will agree that something must be done to help this long-time customer.

How We Can Think about This Issue

It's hard to imagine that any of us would find encouragement to ignore product safety or fiduciary responsibilities in any of the ethical theories. Producing safe products clearly benefits the most and harms the fewest. Customer confidence is rooted in trust. Trust is very much built slowly, over time, experience by experience. We can't trust something that we don't know or that we lack confidence in. Again, this is an area where you will no doubt experience difficulties and conflicts as you go out into the business world. It's another great area to discuss out loud and ahead of time—to practice making your decisions now, and voicing your arguments aloud, as a way to prepare for challenges you may face in the future.

Why Is It an Ethical Problem?

We use the term *customer confidence issues* as an umbrella to address the wide range of topics that can affect your relationship with your customer. These are ethical issues because they revolve around fairness, honesty, responsibility, truth, and respect for others. Customer relationships can't survive without those basics of trust.

Costs

On the organizational level, there are severe penalties for being dishonest in advertising or for misleading the public about the effectiveness or safety of a product or service. While individual failures in the area of trust usually don't warrant a lot of publicity (although sometimes they do—think about Bernie Madoff), nothing can destroy an individual's reputation as much as dishonesty. When you're a student who hasn't entered the workforce yet, it's difficult to imagine that the world of work is small, but it is. In some industries—like banking and biotech—it's a very small world indeed, and your reputation will follow you around like your shadow. Anyone who has been in business for even a few years can regale you with stories of colleagues who are as "honest as the day is long" or, conversely, "can't be trusted as far as you can throw them." Your reputation is built slowly with countless gestures, actions, and conversations over time, but it can be destroyed in an instant by one foolish mistake. You need to safeguard your reputation carefully—it is without question the most valuable thing you have in business.

USE OF CORPORATE RESOURCES

As discussed in the introduction, you and your employer have a special relationship, and each owes the other a modicum of loyalty based on that relationship. In addition, since you're a corporate representative, you're considered an "agent" of your company. This means that your actions can be considered as the actions of the corporation. This section of the chapter presents the flip side of the above section on human resources issues—your employer's responsibilities to you are described in that section, and your responsibilities to your employer are described here.

What Is It?

The use of corporate resources involves your fulfilling your end of the employer-employee "contract." It means being truthful with your employer and management and being responsible in the use of corporate resources, including its finances and reputation.

> A young woman who works for you is moving with her husband to another city, where she'll be looking for a new job. She's an excellent worker and when she asks you for a reference, you're glad to do it for her. She specifically asks for a written recommendation on your corporate letterhead.

USE OF CORPORATE REPUTATION Whenever you identify yourself as an employee of your company, people can infer that you are speaking on behalf of it, which is why you have to be careful how you link yourself to your company. For example, if you use corporate letterhead to write a recommendation for someone or simply to complain to the telephone company, it can be construed as a "corporate" position. Consequently, corporate letterhead should be used only for corporate business. If, as in the case of the recommendation, you need to identify yourself as an employee, use your personal stationery and attach your business card. The objective is to differentiate between your personal opinions and any official stance of your organization.

Recommendations, in particular, present a challenge for employers and individuals. Many companies attempt to check with former employers when hiring someone. This can present a problem since most companies prohibit their personnel from officially supplying this type of information because of lawsuits that have resulted from employer-supplied recommendations. Today, some social networking sites allow people to write posts about others in their professional network. But be careful, especially if writing about someone you supervise. What if your flattering post online differs from the more critical performance evaluation that's on file, and what if the employee is subsequently let go? The person's lawyer could use the post in an unjust termination lawsuit. (To protect themselves, many employers supply only the following information concerning former employees: name, date of employment, and job title. Most employers also require the former employee's written consent before they supply any salary information to a third party. That raises another ethical issue: If one can't get good, honest recommendation information about prospective employees from their former employers and supervisors, poor employees can just be passed off to other unsuspecting organizations. Is that right?)

Similarly, if you're asked to make a speech, write an article, serve on the board of a nonprofit organization, or participate in any activity that would identify you (and your personal opinions) with your company, be sure to get permission from your manager, the legal department, or human resources. You may unwittingly be supporting a position or organization your company may not wish to be associated with. For example, while it might seem like a great idea for you to serve on the board of your local Society for the Prevention of Cruelty to Animals (SPCA), if you work for a pharmaceutical company that tests drugs on animals, you may be placing your employer in an embarrassing position. Of course, you can serve on the board as a private citizen, but not as an employee of XYZ Drug Company unless you've received corporate authorization. Social networking, blogging, and twittering are all adding complexity to such issues, and more and more organizations are developing policies to guide appropriate employee conduct in these new arenas.

> You joined one of the country's largest retail chains, and already you've been promoted to department manager in one of your employer's largest stores in an upscale shopping mall. Imagine your surprise when you log on to Facebook and see that one of your "friends"—a young woman who heads one of the other departments in your store—has posted confidential store sales on her wall and has also posted sexual comments about a young man who reports to her.

Social networking sites and other social media present new and thorny problems. What happens when an employee posts confidential company information on a pubic site? Is it okay to post sexual comments about a coworker or your boss on a public site? This kind of behavior can reflect poorly on an employer as well as make the author of such comments look like an idiot or worse. The scariest part of this scenario is that items posted on the Internet last forever. You can't just "erase" them and ensure that they're really obliterated forever. Organizations take this behavior very seriously. One recent college graduate hired into a plum job by a national retailer was fired for posting inappropriate content about his employer on his Facebook wall. Here's another thorny case:

> You're an employment counselor at a large outplacement firm. Your company is currently negotiating with Black Company to provide outplacement services to 500 employees who are about to lose their jobs as the result of a layoff. Your neighbor and good friend is a reporter for the local newspaper, who mentions to you over coffee one Saturday that she's writing a story about Black Company. According to her sources, 1,500 employees are about to lose their jobs. You know her numbers are incorrect. Should you tell her?

Dealing with the press—even when the reporter is a friend or relative—is a tricky business that shouldn't be attempted by a novice. In a case like the one above, where you may think your friendly reporter might have incorrect numbers, silence is truly the best policy. Her numbers may in fact be correct, and your numbers may represent only the employees who are eligible for outplacement services, not the total number who are losing their jobs.

Another issue that can be confusing to businesspeople is what "off the record" means. For the most part, *off the record* means that a reporter won't quote you directly or attribute any remarks to you. You can't, however, tell a reporter that your remarks are off the record after the fact. The way to tell a reporter that remarks are off the record is to inform him or her before offering your information. But the very best way to make sure something is off the record is to keep your mouth shut in the first place. Reporters with the best of intentions can very innocently get their sources into trouble by providing information that only the source would know, thereby identifying the source.

If you are contacted by the press, immediately alert your company's public relations department. Unless you're trained to answer press inquiries and receive authorization to do it, you should not comment to the press. It's easy to innocently supply confidential information or cast a negative light on your company when you're untrained to deal with probing or ambiguous questions posed by a skilled journalist.

> You've been working very long hours on a special project for the chairman of your company. Your company policy states that employees who work more than 12 hours in one day may be driven home by a company car at company expense. Policy also states that employees who work longer than two hours past the regular end of their day can have a meal delivered to the office at company expense. You and your colleagues who are also working on the project are arriving at the office at 8:00 a.m. and order dinner at 7:00 p.m.; then you enjoy dinner and conversation for an hour and are driven home by company cars. Is this okay?

CORPORATE FINANCIAL RESOURCES In a game entitled "Where Do You Draw the Line: An Ethics Game," produced by Simile II, players explore the differences between taking $10 worth of pencils from their company and distributing them to poor children, making $10 worth of personal long-distance calls at work, and taking $10 from their company's petty cash drawer. Do you think these scenarios are different, or pretty much the same thing? Most people eventually conclude that all of them, regardless of the employee's intentions, involve stealing $10 worth of corporate resources. The bottom line is that corporate equipment and services should be used only for company business. Whether it involves making personal phone calls, padding expense reports, appropriating office supplies, sending personal mail through the company mail room, or using copy equipment to print a flyer for your scout troop, personal or inappropriate use of corporate resources is unethical and violates most corporate policy.

In a case like the one above, where you and colleagues are working long hours to complete a special project for the company's chairman, you are following corporate policy to the letter; so your actions are probably acceptable to most organizations. However, if you and your coworkers are stretching out the last hour of dinner so that you can take a company car home, you're getting into ethical hot water. Are you also stretching out the work in order to have a free meal? If you would have no problem explaining your actions to the chairman, or if you wouldn't mind if he or she sat in on one of those dinner hours, then the meals and the cars are perfectly acceptable. The important thing is to treat your company's resources with as much care as you would your own.

> Your manager is being transferred to another division of the company in early January. He calls a meeting in early November and asks that every department head delay processing all invoices until after January 1. He wants to keep expenses low and revenues high so that his last quarter in your area shows maximum revenue.

PROVIDING HONEST INFORMATION Another key issue concerns truth. We discussed truth with customers earlier in this chapter, but now we're talking about telling the truth within your organization and providing honest information to others within your company. Although everyone will agree that telling the truth is important, someday you may have a manager who says something like, "These numbers look too negative—let's readjust them so it looks better to senior management. We'll make up the difference in the next quarter." Many managers feel it necessary to put a positive spin on financial reports before submitting them up through the ranks. As a result, some companies have suffered serious financial penalties because their numbers have been positively spun on so many succeeding levels, they bear no resemblance to reality by the time they reach the top. "Fudging" numbers can have serious consequences since senior management may make crucial decisions based on flawed data. (Corporations are fined by regulators if inaccurate financial information is submitted to regulators or incorporated into formal financial statements.) If you're asked to skew any kind of corporate information, you should consult with someone outside your chain of command—such as the legal, human resources, or audit department—and then decide whether it's time to move on. Serious corporate scandals, sometimes leading to jail terms for those involved, often begin with these "one-time" requests. Once you're involved, it's almost impossible to extricate yourself from an almost inevitable downward spiral. Ask employees at HealthSouth and WorldCom; some of them spent years in prison for going along with such requests.

In the case about a manager wishing to delay paying expenses until after he leaves the area, think about it from a consequentialist perspective. Such creative bookkeeping harms not only the person who is taking his place in January, but also the suppliers who are relying on prompt payment of their invoices. It's grossly unfair to ask suppliers to wait almost 60 extra days before getting paid. One solution might be to approach the other department heads and gain their cooperation in refusing to follow your manager's request. Another course of action would be to relate the incident to the audit department, which would surely be interested in your manager's shenanigans.

How We Can Think about This Issue

Once again, using the various theoretical approaches can be extremely helpful. Thinking broadly about potential harms and benefits for all stakeholders will inevitably lead you to be honest in your dealings. From a deontological perspective, most of us put honesty and integrity at or near the top of our values lists. We would certainly want to be treated that way if the tables were reversed. And that's certainly the ethical standard we would want to guide our world.

Even more important, however, may be thinking about how to live your values in this particular area. If you seriously consider who you are and what you want to be known for, your decision making in this area will be much easier. For example, if you want to be known as a straight shooter who can be trusted at high levels and with delicate customer accounts, would you ever consider misusing corporate resources or fudging the numbers? What would that say about you, and how would it affect your reputation? It would undermine everything else you were trying to do in your professional life. In this arena, doing the right thing often requires standing up for your values—especially standing up to those at higher levels who might be requesting or even demanding that you go along. In such cases, you'll need to summon up courage to stand up for what you believe. You have a better chance of doing that if you practice what you're going to say. Find a coworker who agrees with you and practice. You may be surprised to find that once you get clear about your ethical stance and can express it in a clear and nonaccusatory way, you won't get such a request again. If you fear for your job because you won't go along, that's the time to polish your résumé and begin looking elsewhere.

Why Is It an Ethical Problem?

Your use of corporate resources is an ethical issue because it represents fulfilling your end of the employer-employee contract. Its roots are in fairness and honesty.

Costs

Obviously, if you've stolen corporate assets or filed an inflated expense report, you'll almost certainly be fired—and you may be arrested. If you have divulged confidential information to another corporation (as in supplying a recommendation for a former employee), your company may be placed at risk for a lawsuit. If you've posted derogatory remarks about your boss, coworkers, or company on a social networking site, you may short-circuit your career and cause people around you to mistrust you.

If you fail to uphold your end of the employer-employee loyalty contract, your career at your company can be damaged. Ethical corporate cultures place tremendous importance on honesty, loyalty, and teamwork. Generally, successful corporations are communities where a sense of family has been encouraged. Just as family members try to protect one another and keep family information private, the company community tries to encourage the same behavior. Individuals who violate the corporate "family" trust by squandering resources, being dishonest, or misusing the family reputation are frequently isolated or fired.

WHEN ALL ELSE FAILS: BLOWING THE WHISTLE

A section on ethics and the individual wouldn't be complete without a discussion of what happens when you suspect serious wrongdoing within your organization If your observations are serious and keeping you awake at night, you may have to report the problem—blow the whistle—and you need to proceed with great caution. This also is why understanding what you value and practicing living your values is so important. If you haven't practiced living your values by the time you get embroiled in a sticky dilemma at work, the situation will be much more difficult for you to handle. With practice (and a bit of luck), you may have been able to stop the problem from developing into a serious one. We hope so. But occasionally you will find yourself with knowledge about serious wrongdoing, and blowing the whistle (either internally or externally) may seem like your only option.

In these really tough situations, voicing your values at work takes significant courage because of the increased risks involved. Kathleen Reardon encourages us to think about courage at work as "calculated risk taking."[16] She recommends that you do the following:

1. Ask yourself how strongly you feel about the particular issue. When people are asked, "where do you draw the ethical line?" the most important issues are clearly over the line either because acting in a certain way or not acting at all is likely to cause great harm or breach our most cherished values. According to Reardon, these are "spear in the sand" issues that compel action. So, ask yourself which kind of issue you're facing.
2. Ask yourself about your intentions. Are you just advancing a personal agenda, or do your goals serve the greater good? If you see a coworker being treated unfairly by an abusive supervisor, what should you do? For example, will rescuing your coworker by reporting the abusive supervisor serve the greater good?
3. Consider power and influence. As we noted above, unless you're the CEO, you're rarely in a position to make a decision for the organization. If you feel strongly about something, you're likely going to have to convince others. So think about how your social network might help convince your manager or organization to do the right thing. This usually isn't about following the organization chart. Rather, it's about knowing where the power rests and developing good, trusting relationships with those people. But you can't do this at the last minute. Trusting relationships are developed

over time. If you have developed these, you should be able to address the issue before it becomes a whistle-blowing possibility.

4. Weigh the risks and benefits of action. This isn't quite the same as the consequentialist analysis of harms and benefits to multiple stakeholders (discussed in Chapter 2). That analysis is more wide-ranging and focuses on societal good. Here, you're looking more pragmatically at the people involved, at whether reputations or standing in the organization (yours or others') will be tarnished by taking action. Perhaps you can reduce the risks and increase the potential benefits by finding a creative way to address the issue. For example, can you report an incident anonymously rather than confronting someone directly? Can you offer apologies for something you have done in the past, in hopes that the person at fault in this situation is inspired to do the same?
5. Think about timing. If the issue isn't urgent, and especially if it isn't a spear-in-the-sand issue, ask yourself whether you can put off action a bit to better prepare and to ensure that you've reflected on the risks and what you're considering doing. Have you given yourself the opportunity to practice what you would say in a meeting with your boss, for example?
6. Develop alternatives. In dicey situations, it's extremely helpful to have alternatives in mind. What will you do if you don't get your desired outcome? Do you have an alternative in mind? For a spear-in-the-sand issue, are you willing to either lose your job or leave it, if it comes to that?

Once you decide to blow the whistle, you need to think carefully about how to go about it. How *not* to blow the whistle might be best illustrated by a case that involves a high-level investment banker who discovered that some of his colleagues were engaged in unethical dealings with several customers. The investment banker brought the situation to the attention of his manager, who told him to forget it. Determined to raise the issue, the banker wrote an irate memo to his company's CEO outlining the situation and naming names. The banker copied the memo to several other top managers. Even though there were only three levels of management between the banker and the CEO, and even though the banker was right about his colleagues and they were eventually fired, the banker was also fired.

In another large, multinational company, a young trainee in an Asian country felt he was being treated unfairly by his local management. In a fit of anger, he wrote a long message outlining his grievances on his company's e-mail system (today, he might have posted something on his blog or sent a Twitter message about his situation). Although he addressed his message to the company CEO, president, and head of human resources (all three senior managers were based in New York), he copied everyone else on the system—approximately 30,000 managers worldwide. The trainee was fired not because of the message, but because of how he communicated it. The head of human resources commented, "He was being groomed for management, and we couldn't have someone with such poor judgment in that role. If he had complained only to senior management, he would have been heard, he would have been protected, and we would have corrected the situation. After copying the world with his complaint, we felt he was a loose cannon and we had no choice but to get him out."

Unless you want to be branded as someone with poor judgment, you have to be very careful about how you raise ethical concerns. Usually, the CEO is one of your last resorts, to be approached only after you've exhausted every other internal resource. There are exceptions to this guideline. A notable exception occurred at PPG Industries, where former CEO Vince Sarni asked and encouraged employees to contact him directly with issues. A hotline for that purpose sat on his desk, and he personally answered that phone. Warren Buffett, the CEO of Berkshire Hathaway, also used the "call me" approach when he served as a director of Salomon Brothers back in 1991. As the company became embroiled in a bid-rigging scandal (see Chapter 10 for the details), Buffett stepped in as interim CEO. He wrote a letter to Salomon Brothers managers that said, "Here's my home phone number in Omaha. If you see anything unethical, give me a call." Managers did call him, and they were able to devise a plan to save Salomon Brothers from Andersen's fate.[17]

So how do you blow the whistle? First, let's talk about when.

> A long-time customer approaches you for financing for a new business venture. The customer offers as collateral a piece of property he has purchased in a rural location for the purpose of building a housing development. You send an appraiser to the property, and he accidentally discovers that this property holds toxic waste. You're sure this customer is unaware of the waste; in fact, the waste is migrating and in a few years will invade the water table under a nearby farmer's fields. You explain the situation to your manager, who naturally instructs you to refuse to accept the property as collateral, but he also forbids you to mention the toxic waste to the customer. "Let them find out about it themselves," he says. Do you alert the customer to the toxic waste? Do you alert government regulators?

When Do You Blow the Whistle?

Let's assume first that your concern involves a serious issue. Reporting toxic materials, for example, is a serious issue, because of the potential for serious harm. Recall that serious harm raises the moral intensity of an issue. So your ethical antennae are likely to be highly sensitized in this situation, and you're going to feel more compelled to do something. A colleague padding an expense report a bit on one occasion isn't quite as serious. Once you've informed your manager about a fudged expense report, your responsibility is probably fulfilled. However, one colleague fudging an expense report one time is a far cry from a group of employees systematically altering all of their expense reports with their manager's knowledge. If you suspect something of that magnitude, of course you should report it to someone outside your chain of command, such as the ethics office or your organization's internal auditor.

Many might disagree with this approach, but few people in business have the time to be "on patrol." Once a manager is alerted, it's his or her responsibility to deal with issues like expense reports, except in extraordinary circumstances. This could be termed “picking your battles” and responding appropriately to your gut feelings. Obviously, you should use the prescriptive frameworks to help you decide what to do. But let’s also consider a number of simple triggers that can help you determine if an issue is serious.

Some of the triggers to help you determine if an issue is serious enough to be raised beyond your immediate manager include an issue that involves values such as truth, employee or customer (or other stakeholder) rights, trust, fairness, harm, your personal reputation or the reputation of your organization, and whether the law is being broken or compromised. In the toxic dump case, for example, serious harm could certainly result; customer (and other stakeholder) rights are involved; your organization’s reputation is at risk; a public trust may be violated; and the law may very well be compromised or broken if you keep quiet about toxic wastes under a proposed housing development, because the toxic wastes could ultimately affect the food supply. A situation like this has all the earmarks of a serious ethical dilemma that requires action.

Suppose your manager asks you to supply inaccurate numbers in a financial report to another level of management. That situation involves not only a breach of truth but also potential harm; it could damage your reputation and ultimately your company’s reputation. It’s a serious issue that you’ll probably want to report.

How to Blow the Whistle

Let’s assume that you’re dealing with a serious issue, you’ve assembled the facts, they’re accurate to the best of your knowledge, you’ve asked your peers or your manager for advice, and there’s a law or company policy about to be violated, or one of the other triggers discussed earlier indicates a serious problem. Now what?

1. **Approach Your Immediate Manager First.** If your manager tells you to ignore a situation or belittles your concern, approach him or her again. The second time you approach your manager, you may want to write a memo and spell out your concerns in black and white so it’s more difficult for your manager to ignore or dismiss them. Writing a memo is frequently enough to convince your manager that this is serious, and so you’ll get a more favorable response. You should also do some soul searching to make sure your decision to pursue this issue is an objective one, and not based in any feeling of revenge you might have for your manager, coworkers, or company. This is also a good time to rehearse out loud and to others (maybe a trusted coworker, your parents, or your spouse) what you want to say. Also, you should find out exactly how your company wants issues raised and if there is a special process for doing it. If there is, follow the process to the letter.[18]
2. **Discuss the Issue with Your Family.** Since any whistle-blowing activity can affect your family as well as yourself, it’s imperative that they know what’s going on. It’s also the time to document your activities. Obtain copies of correspondence that relate to the issue and any memos you’ve written in

an attempt to alert management. Keep a diary to track activities related to the issue and describe any conversations you've had concerning the issue.[19]

3. **Take It to the Next Level.** If you receive no satisfaction from your manager, it's time to go to the next level of management. The most diplomatic way of going around your manager is to say to your manager something like, "I feel so strongly about this that I'd like a meeting with you and your manager to discuss it." The positive aspect of asking your manager to go with you to the next level is that he or she will be less likely to feel betrayed, and you'll appear to be a team player. The negative aspect is that your manager may forbid you to approach his or her manager. If that happens, or if you're still not satisfied after meeting with the next level of management, you'll need to consider going outside your chain of command.
4. **Contact Your Company's Ethics Officer or Ombudsman.** Find out if your state has any special legislation regarding whistle-blowing. Your state may have legislative protection for whistle-blowers, but it may require you to follow certain procedures to protect yourself.[20] You may choose to go to these officials first, especially if your manager is part of the problem. As a result of the U.S. Federal Sentencing Commission Guidelines (see Chapter 6) and Sarbanes-Oxley legislation, most large organizations now have reporting systems that allow you to report problems and to do so anonymously.
5. **Consider Going Outside Your Chain of Command.** If your company has no formal department or process for handling such complaints, think about other areas that would be receptive to your concerns. If your issue is human resources related—if it involves relationships or activities within your company like discrimination or sexual harassment—you may be able to approach your human resources officer or department. If the issue is business related—if it involves external relationships such as those with customers, suppliers, regulators—you can still approach human resources, but a better choice would probably be the legal department or your company's internal auditors. Obviously, if the issue involves the law or an actual or potential legal issue, you should contact the legal department. And if the issue concerns a financial matter, it's probably better to approach your organization's auditors. Most auditors have a system of internal checks they can trigger that will confirm or refute your suspicions and even protect you. Also, some auditors in some industries have an underground network of sorts; there are relationships that exist among auditors from various organizations. They can quietly investigate situations and keep them from blowing out of proportion if that's indicated and appropriate.

   Since the role of human resources, legal, and audit departments is to protect the corporation, they should be receptive to any concerns that could put the company at risk. If, however, the activity you're concerned about has been approved or condoned by the highest levels of management, these internal departments may be inclined to go along with "business as usual." And since their role is to protect the company, you're likely to find that their first allegiance is to the company, and not to you.

It's usually safe to approach these departments, but it's not completely without risk. You can reduce the risk if you can persuade one or more of your colleagues to join you in the process. Having an ally can encourage lawyers and auditors to take you more seriously. It also may be wise to consult your personal lawyer at this point in the process. According to Hoffman and Moore, your attorney can "help you determine if the wrongdoing violates the law, aid you in documenting information about it, inform you of any laws you might be breaking in documenting it, assist you in deciding to whom to report it, make sure reports are filed on time, and help you protect yourself against retaliation."[21]

Once you've approached your management, the ethics or compliance office (if your company has one), and human resources, legal, or audit, you should have received some satisfaction. The vast majority of whistle-blowing cases are resolved at one of those levels. However, if you're still concerned, the risks to you personally escalate significantly from this point on. Your last resort within your company is your organization's senior management, including the CEO, president, or board of directors. Obviously, you should contact whoever has a reputation for being most approachable. Understand that your immediate management will most likely be irate if you approach senior management. However, if you're right about your concerns, you may end up a hero if the issue you're raising is a localized problem and senior management is unaware of what's going on.

Before contacting your senior management, be sure to have your facts straight and documented. (This is where a diary and copies of correspondence are useful.) If you're wrong, few people are going to understand or forgive you. You may be harassed, reprimanded, or penalized, or some pretext may be found to fire you. However, there is evidence that you can contact the CEO and keep your job. For example, Sherron Watkins, vice president of corporate development at Enron, still had her job at Enron one year after CEO Ken Lay received her fearful letter about accounting irregularities and months after the executive team resigned. However, she wrote her letter to the CEO and not to the local newspapers.[22] Like many other whistle-blowers, Sherron Watkins is now making her living as a public speaker and consultant.

6. **Go Outside of the Company.** If you've raised the concern all the way to the top of your company, still have a job, and are still unsatisfied, your only choice now is to go outside. If your company is part of a regulated industry, like defense contractors and commercial banks, you can contact the regulators who are charged with overseeing your industry. Or you can contact the press. However, if you've already contacted numerous individuals in your company about the issue, it won't take a genius to figure out who is talking

outside of the company. Even if you contact the press or the regulators anonymously, your coworkers and management probably will know it's you.

Recent legislation has made it easier and more lucrative for employees to blow the whistle to regulators when companies are government contractors or when the federal government has somehow been defrauded. Under the False Claims Act, whistle-blowers who report corporate wrongdoing against the government to prosecutors can be awarded 15 to 30 percent of whatever damages the federal government recovers, which are to be three times the damages the government has sustained. Because the government has recovered more than $10 billion since the law's inception, this has become a powerful incentive for some employees to tell all to prosecutors. For example, Jim Alderson was fired from his accounting job at Quorum Health Group when he refused to go along with the company practice of keeping two sets of books for Medicare reimbursements, one for the government and one marked "confidential." He filed a wrongful termination lawsuit that developed into False Claims Act lawsuits against his employer and its parent company for overbilling the government. The government recovered almost $2 billion, and Alderson received $20 million. The number of such lawsuits has grown significantly in recent years. In one of the biggest suits ever, TAP Pharmaceuticals paid $875 million to the government for engaging in illegal pricing and marketing practices with a cancer drug (you'll read more about TAP Pharmaceuticals in the end-of-chapter case for Chapter 5).[23]

In 2002 Congress passed the Sarbanes-Oxley Act, which, among other things, provides whistle-blowers in publicly traded companies with revolutionary new protections if they "make a disclosure to a supervisor, law-enforcement agency, or congressional investigator that could have a 'material impact' on the value of a company's shares."[24] Under the law, board committees must set up procedures for hearing whistle-blower concerns; executives who retaliate can be held criminally liable and can go to prison for up to 10 years; the Labor Department can force a company to rehire a whistle-blower who has been fired; and workers who have been fired can request a jury trial after six months. Corporate attorneys are now required to report misconduct to top management and to the board if executives don't respond. But, unlike the False Claims Act, the new law does not provide for financial incentives. And it does not protect employees at private companies.

For additional guidance about whistle-blowing, several websites can answer myriad questions; just type the keyword *whistle-blower* in your Internet search engine. Probably the most comprehensive website for whistle-blowers is the National Whistleblower's Center, a nonprofit, tax-exempt organization that is dedicated to providing educational and advocacy services to whistle-blowers (www.whistleblowers.org).

7. **Leave the Company.** Some situations might be so disturbing to you that you have no alternative but to quit your job. The toxic dump situation described

earlier might be one of those situations. Frankly, the stress involved in blowing the whistle is so intense that you might consider quitting your job after step 3 or 4, and you'll need all of the prescriptive ethical decision-making frameworks to help you decide whether you are ethically obligated to report the problem to someone or whether simply leaving is okay.

Whistle-blowing is so stressful that in one study, one-third of the whistle-blowers surveyed would advise other people not to blow the whistle at all.[25] Senator Charles Grassley likened whistle-blowers to "a skunk at a picnic."[26] Many people, however, would find it extremely difficult—perhaps impossible—to live with certain situations on their conscience. The knowledge of a toxic dump about to poison private wells would probably be almost impossible for most people to live with without reporting. When knowledge becomes unbearable, blowing the whistle and ultimately quitting your job may be the only solution (or the other way around—quit first and then blow the whistle).

Unfortunately, 2002 provided lots of opportunities for whistle-blowing. *Business Week* called 2002 the "Year of the Whistleblower," highlighting the role of Joe Speaker, a manager at Rite-Aid (and son of a former Pennsylvania attorney general) who alerted the audit committee of the board to accounting chicanery at the firm. Martin Grass, the former CEO and chairman, was later found guilty and is serving a jail sentence.[27] *Time* magazine named Cynthia Cooper, Coleen Rowley, and Sherron Watkins "persons of the year" for their "exceptional guts and sense." Watkins was the vice president at Enron who first brought improper accounting methods to the attention of chairman Kenneth Lay and later testified before Congress where, she says, she "broke out in a cold sweat." Coleen Rowley is the FBI attorney at the Minneapolis office who alerted FBI Director Robert Mueller to the fact that the FBI had brushed off pleas to investigate Zacarias Moussaoui, now convicted as a September 11 co-conspirator. Cynthia Cooper informed the board at WorldCom about phony bookkeeping and the attempt to cover up \$3.8 billion losses. According to *Time*, "Democratic capitalism requires that people trust in the integrity of public and private institutions alike. As whistleblowers, these three became fail-safe systems that did not fail. For believing—really believing—that the truth is one thing that must not be moved off the books, and for stepping in to make sure that it wasn't, they have been chosen by *Time* as its Persons of the Year for 2002." In its attempt to identify the characteristics these three women shared, *Time* noted that all three grew up in small towns and all were firstborns. All are married and serve as chief breadwinners in their families. None of this, however, explains why they were willing to risk so much to reveal the truth. At the end of 2002, Watkins left Enron voluntarily to start her own consulting firm. The other two were still employed by their organizations. That doesn't mean they haven't paid a price. They claim to be hated by some colleagues, and they laughed when asked if executives at their organizations had thanked them. *Time* quoted Ibsen's play, *An Enemy of the People*, in its tribute to the three women: "A community is like a ship. Everyone ought to be prepared to take the helm." These women "stepped up to the wheel."[28]

CONCLUSION

This chapter highlights some of the most common ethical problems you might encounter during your career and provides some advice on raising issues if you feel the need. Although ethical problems can be difficult to evaluate, it can be easier to decide what to do when you've spent some time thinking about them ahead of time—before they happen. We also strongly believe that identifying what you value, thinking about various ethical situations, and practicing your responses in advance are effective ways to prepare you to live an ethical professional life.

DISCUSSION QUESTIONS

1. What do you value? Can you make a list of the three or four values you would stand up for? How will you explain to others what your values are and why?
2. Have you ever practiced raising an ethical issue to a professor or to your manager? What did you do? What were the results?
3. Have antidiscrimination laws helped or hurt the fair treatment of workers?
4. Is diversity management an ethical issue?
5. Is sexual harassment as important an issue for men as it is for women?
6. What conditions would make accepting a gift from a vendor or a client acceptable?
7. Describe the conditions under which you could hire a college friend.
8. Why do certain professionals—bankers, accountants, lawyers, physicians, clergy—have fiduciary responsibilities?
9. What would you do if a former subordinate asked you to write him or her a letter of reference on corporate letterhead?
10. Do employers have a responsibility to alert other employers to an employee's wrongdoing by supplying an unfavorable reference? Why or why not? Discuss the conflict between community responsibility and self-protection.
11. What conditions would have to be present for you to blow the whistle about unethical conduct you observed at work? How would you go about it?
12. If Sherron Watkins had blown the whistle to the *Houston Chronicle* and not to Enron's CEO Ken Lay, do you think she would have kept her job at Enron?
13. Research a story of whistle-blowing. Relate what "your" whistle-blower did with the seven steps recommended in the chapter. What have you learned from the comparison?

SHORT CASES

Think about what you most value. For each of the ethical dilemmas below, describe at least two courses of action you might take and state the pros and cons of each course. Describe your actions out loud to someone else in class or to a friend. What can you say or do that would be consistent with your personal values?

VOICING YOUR VALUES

You're a trader who joined a large investment bank two years ago. Pat, one of your fellow traders, is well known on the Street for being a big risk taker and a big money maker for the firm. Consequently, he is popular among your firm's senior management. You see him at a party one night and notice that he surreptitiously used cocaine several times. Several weeks later in the office, you notice that he seems exceptionally high-spirited and that his pupils are extremely dilated—you know that both are signs of drug use. You're thinking of mentioning something about it to his managing director, Bob, when Pat makes a particularly impressive killing in the market for your firm's own account. Bob jokes that he doesn't know how Pat does it, but he doesn't care. "However he is pulling this off, it's great for the firm," Bob laughs. You feel strongly that this is a problem and that it places your firm at risk. You've already raised the issue to Pat's manager, Bob, who ignored the issue. Do you raise it further? How can you voice your values in this case?

PEOPLE ISSUE

Your division has formed a committee of employees to examine suggestions and create a strategy for how to reward good employee ideas. The committee has five members, but you are the only one who is a member of a minority group. You're pleased to be part of this effort since appointments to committees such as this one are viewed generally as a positive reflection on job performance. At the first meeting, tasks are assigned, and all the other committee members think you should survey minority members for their input. Over the next few weeks, you discover that several committee meetings have been held without your knowledge. When you ask why you weren't notified, two committee members tell you that survey information wasn't needed at the meetings and you'd be notified when a general meeting was scheduled. When you visit one committee member in his office, you spot a report on the suggestion program that you've never seen before. When you ask about it, he says it's just a draft he and two others have produced.

CONFLICT OF INTEREST ISSUE

You've just cemented a deal between a $100 million pension fund and Green Company, a large regional money manager. You and your staff put in long hours and a lot of effort to close the deal and are feeling very good about it. As you and three of your direct reports are having lunch in a fancy restaurant to celebrate a promotion, the waiter brings you a phone. A senior account executive from Green is calling and wants to buy you lunch in gratitude for all your efforts. "I'll leave my credit card number with the restaurant owner," he says. "You and your team have a great time on me."

CUSTOMER CONFIDENCE ISSUE

You're working the breakfast shift at a fast-food restaurant when a delivery of milk, eggs, and other dairy products arrives. There's a story in the local newspaper about contaminated milk distributed by the dairy that delivers to your restaurant. Upon reading the article more closely, you discover that only a small portion of the dairy's milk is contaminated, and the newspaper lists the serial numbers of the affected containers. When you point out the article to your manager, he tells you to forget it. "If you think we've got time to go through every carton of milk to check serial numbers, you're crazy," he says. "The article says right here that the chances are minuscule that anyone has a contaminated carton." He also explains that he doesn't have the workers to check the milk, and what's more, destroying the milk would require him to buy emergency milk supplies at the retail price. So he tells you to get back to work and forget about the milk. He says, "I don't have the time or the money to worry about such minor details."

USE OF CORPORATE RESOURCES ISSUE

You work for Red Company. You and a colleague, Pat Brown, are asked by your manager to attend a weeklong conference in Los Angeles. At least 25 other employees from Red Co. are attending, as well as many customers and competitors from other institutions. At the conference, you attend every session and see many of the Red Co. people, but you never run into Pat. Although you've left several phone messages for her, her schedule doesn't appear to allow room for a meeting. However, when you get back to the office, the department secretary, who is coordinating expense reports, mentions to you that your dinner in L.A. must have been quite the affair. When you ask, "What dinner?" she describes a dinner with 20 customers and Red Co. employees that Pat paid for at a posh L.A. restaurant. When you explain that you didn't attend, she shows you the expense report with your name listed as one of the attendees.

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SECTION III

MANAGING ETHICS IN THE ORGANIZATION

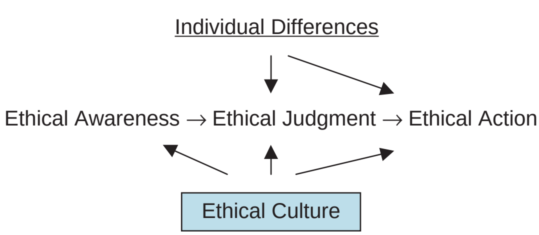
CHAPTER 5

ETHICS AS ORGANIZATIONAL CULTURE

INTRODUCTION

Thus far, we have discussed business ethics primarily in terms of how individual employees think and respond. But anyone who has ever worked knows that employees are not "just" individuals. They become part of something larger; they're members of an organizational culture that affects how they think and behave. Here, we apply this culture concept to organizational ethics. You can think about the *ethical culture* of an organization as a "slice" of the larger organizational culture that represents the aspects of organizational culture that affect the way employees think and act in ethics-related situations.

In terms of how we've been thinking about ethical decision making, you can consider ethical culture to be a significant organizational influence on individuals' ethical awareness, judgment, and action, along with the individual differences and other influences already discussed in Chapter 3. Recall that most employees are at the conventional level of cognitive moral development, meaning that they are looking outside themselves for guidance about how to think and act. Ethical culture is a source of a good bit of that guidance and can influence employees to do either the right thing or the wrong thing.



ORGANIZATIONAL ETHICS AS CULTURE

What Is Culture?

Anthropologists define *culture* as a body of learned beliefs, traditions, and guides for behavior shared among members of a group.[1] This idea of culture has been particularly useful for understanding and differentiating among work organizations and the behavior of people in them.[2] It's a way of differentiating one organization's "personality" from another. The organizational culture expresses shared assumptions, values, and beliefs[3] and is manifested in many ways, including formal rules and policies, norms of daily behavior, physical settings, modes of dress, special language, myths, rituals, heroes, and stories.[4] To assess and understand an organization's culture requires knowledge of the organization's history and values, along with a systematic analysis of multiple formal and informal organizational systems.

Organizational cultures can vary widely, even within the same industry (consider Wal-Mart, Target, and Costco—all big-box retailers that have very different cultures). In the computer industry, IBM was known for many years for its relative formality, exemplified by a dress code that mandated dark suits, white shirts, and polished shoes. Apple Computer, on the other hand, was known for its informality. Particularly in its early days, T-shirts, jeans, and tennis shoes were the expected Apple "costume." *Fortune* magazine described IBM as "the sensible, wingtip, Armonk, New York computer company, not part of that sneaker-wearing, tofu-eating Silicon Valley crowd."[5] Although that characterization was made a long time ago, it's still pretty applicable today.

Strong versus Weak Cultures

Organizational cultures can be strong or weak.[6] In a strong culture, standards and guidelines are widely shared within the organization, providing common direction for day-to-day behavior. This is likely because all cultural systems, formal and informal, are aligned to provide consistent direction and to point behavior in the same direction. In the 1980s, Citicorp's culture was so strong that when Katherine Nelson, a coauthor of this text and former vice president and head of human resources communications at Citicorp, traveled to the firm's offices in the Far East to deliver ethics training, she felt right at home (despite huge differences in national culture). "You could tell that you were in a Citicorp facility," she said, "whether you were in London, Tokyo, or New York." When Nelson facilitated an ethics training session for Japanese managers, she presented them with a common ethical dilemma—what do you do if you have raised an important ethical issue with your manager and nothing is done? Moreover, the manager discourages you from pursuing the issue. The potential answers included do nothing, go around the manager to the next level, raise the issue in writing to the manager, or take the issue to a staff department such as human resources.

The Japanese managers unanimously gave the "correct" answer according to Citicorp culture and policies at the time. They said they would go around their manager and take the issue to the next level. Nelson was surprised at their response, thinking that it conflicted with the wider Japanese culture's deference to authority and seniority. So she asked these managers, "Doesn't this conflict with Japanese culture?" To which they responded, "You forget—we are much more Citicorp than we are Japanese." Citicorp's culture proved to be so strong that standards and guidelines spanned continents and superseded national culture. (Citicorp merged with Travelers in 1998 to form Citigroup, and its culture has changed significantly since then.) This type of experience has since been verified by some of our international students who worked for U.S.-based multinationals before returning to school for their MBA degree. For example, one student worked for Baxter Healthcare in a country known for corruption and bribery. Baxter's strong ethical culture didn't allow such conduct, and employees were proud to be a part of such an organization and happy to comply (even or perhaps especially in the midst of a corrupt business culture).

In a weak organizational culture, strong subcultures exist and guide behavior that differs from one subculture to another. Many large public universities can be thought of as having weak cultures. For example, for faculty, departmental subcultures are often stronger than the overall university culture; the romance languages department differs from the accounting department. Among students at a large state university, the fraternity-sorority subculture coexists with the political activist subculture, the devout Christian subculture, the jock subculture, and many other subcultures, and behavior is quite different within each. It's important to note that weak doesn't necessarily mean bad. In some situations, weak cultures are desirable. They allow for strong subcultures featuring diversity of thought and action. However, in a weak culture, behavioral consistency across the organization is tough to achieve. Look around your own school or work organization. Would you characterize its culture as strong or weak?

How Culture Influences Behavior: Socialization and Internalization

Employees are brought into the organization's culture through a process called enculturation, or *socialization.*[7] Through socialization, employees learn "the ropes." Socialization can occur through formal training or mentoring, or through more informal transmission of norms of daily behavior by peers and superiors. New members learn from observing how others behave or through informally transmitted messages. When effectively socialized into a strong culture, employees behave in ways that are consistent with expectations of the culture (or subculture). They know how to dress, what to say, and what to do.

With socialization, people behave in ways that are consistent with the culture because they feel they are expected to do so. Their behavior may have nothing to do with their personal beliefs, but they behave as they are expected to behave in order to fit into the context and to be approved by peers and superiors.[8] As an example, the president of a huge financial firm once took a young, high-potential manager out to lunch and walked him right over to Brooks Brothers for a new suit. "You can't get where you're going in a cheap suit," the president told the young man, who continued to buy his suits at Brooks Brothers.

But individuals may behave according to the culture for another reason—because they have internalized cultural expectations. With *internalization*, individuals have adopted the external cultural standards as their own. Their behavior, though consistent with the culture, also accords with their own beliefs. They may come into the organization sharing its values and expectations, thus making for a very smooth transition. Or, they may internalize cultural expectations over time. In the above example, the young manager may have initially bought the Brooks Brothers suit because he felt compelled to; but over time, he continued to buy those suits perhaps because he had internalized the expectation and wanted to do so.

The concepts of socialization and internalization apply to understanding why employees behave ethically or unethically in an organization. Most people prefer to behave ethically. When they join an organization with a strong ethical culture, the messages about honesty and respect resonate with their personal beliefs and are easily internalized. They act ethically because it's natural for them to do so and consistent with the cultural messages they're receiving. But unfortunately, most employees can be socialized into behaving unethically, especially if they have little work experience to contrast with the messages being sent by the current unethical culture. If everyone around them is lying to customers, they're likely to do the same as long as they remain a member of the organization.

ETHICAL CULTURE: A MULTISYSTEM FRAMEWORK

We said earlier that ethical culture can be conceptualized as representing a slice of the organization's broader culture. Ethical culture is created and maintained through a complex interplay of formal and informal organizational systems (Figure 5.1). Formally, executive leader communications, selection systems, orientation and training

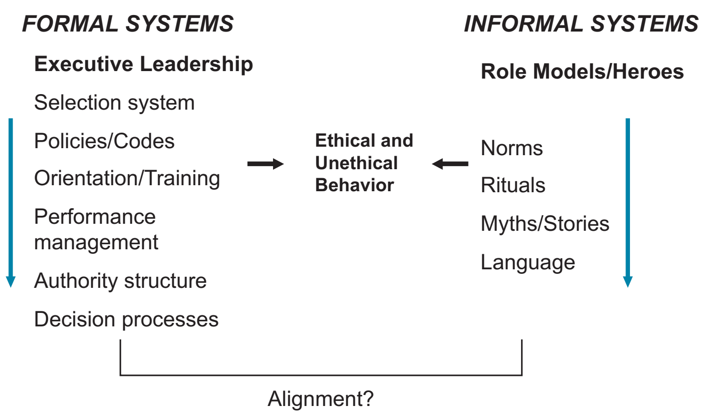


FIGURE 5.1 A Multisystem Ethical Culture Framework

programs, rules, policies and codes, performance management systems, organizational structures, and formal decision-making processes all contribute to creating and maintaining ethical culture. Informally, heroes and role models; norms of daily behavior; rituals, myths, and stories; and language indicate whether the formal ethics-related systems represent reality or facade. The next section provides examples of each of these important ethical culture systems. Although we discuss these systems separately, keep in mind that they are all interconnected.

Alignment of Ethical Culture Systems

To create a consistent ethical culture message, the formal and informal systems must be *aligned* (work together) to support ethical behavior. To have a fully aligned ethical culture, the multiple formal and informal systems must all be sending employees consistent messages that point in the direction of ethical behavior. For example, imagine a company whose formal corporate values statement and ethics code tell employees that honesty is highly valued in the organization and that employees should always be truthful with customers and each other. Consistent with that values statement, the selection system does background checks on potential employees, incorporates ethics-related questions in interviews, and highlights the company's values to recruits. Once hired, new employees are further oriented into the ethical culture by learning about the values of the founder, how the history of the company supports those values, and how the current executive team is carrying on that tradition. They're also trained in the specific kinds of ethical issues they could face in their jobs and how to handle them ethically. They learn that the performance management system will assess them on values-related criteria, including honest and trustworthy interactions, and that these assessments will be important to decisions about compensation and promotion. They are also encouraged to take personal responsibility and speak up about any ethical concerns. On the informal side, they learn that high-level managers routinely tell customers the truth about the company's ability to meet their needs and that the company celebrates employees of exemplary integrity at an annual awards dinner. Employees in such an organization receive a consistent message about the organization's commitment to honesty, and their behavior is likely to be honest as well because these formal and informal systems are aligned and supporting their ethical behavior.

But opportunities for misalignment abound in these complex systems. For example, if the same organization touts its honesty in its values statement but regularly deceives customers in order to land a sale, and the organization gives a highly "successful" but highly deceptive sales representative the firm's sales award, the organization's formal and informal systems are out of alignment. The formal statements say one thing while company actions and rituals say quite another. Employees perceive that deceit is what the organization is really about, despite what the ethics code says. Cultures can range from strongly aligned ethical cultures (where all systems are aligned to support ethical behavior) to strongly aligned unethical cultures (where all systems are aligned to support unethical behavior) to those that are misaligned because employees get somewhat mixed messages due to conflicts between the formal and informal systems.

DOW CORNING: AN ETHICAL CULTURE OUT OF ALIGNMENT? Developing a strongly aligned ethical culture is easier said than done. Managers need to be careful because an organization may easily be lulled into thinking that its ethical house is soundly constructed, only to find that the roof has been leaking and it's about to cave in. This may be what happened to Dow Corning.

Dow Corning had been recognized as a corporate ethics pioneer. It was among the first, in 1976, to establish an elaborate formal ethics program and structure. Then chairman John S. Ludington set up a Business Conduct Committee comprised of six company executives, each of whom devoted up to six weeks a year to the committee's work and reported directly to the board of directors. Two of these members were given responsibility for auditing every business operation every three years. In addition, three-hour reviews were held with up to 35 employees who were encouraged to raise ethical issues. The results of these audits were reported to the Audit and Social Responsibility Committee of the board of directors. John Swanson, manager of corporate internal and management communication at the time, headed this effort and was quoted as saying that the audit approach "makes it virtually impossible for employees to consciously make an unethical decision."[9]

This apparently impressive formal program failed to help the organization avoid its problem with breast-implant safety, however, despite documented warnings from a company engineer in 1976 that suggested that the implants could rupture and cause medical problems. It isn't entirely clear why this well-intentioned ethics program failed. It's likely that, although it was designed to cultivate an overall environment of ethical conduct, aspects of the ethical culture were out of alignment—sending employees different messages.[10] "Layering in a bureaucracy is no substitute for a true corporate culture. Workers have a genius for discovering the real reason for a system and learn quickly how to satisfy its minimum requirements."[11] The system relied on managers to identify the key ethical issues covered by the auditors. Were these managers likely to alert the auditors to their most serious ethical problems? What would the consequences be? The system also relied on periodic planned audits. Did commitment to ethics peak during the planned audit sessions, only to disappear into the woodwork after the auditors left?[12] We don't know, but a comprehensive multisystem audit of the ethical culture might have provided the answer.

Leaders should be interested in creating a strongly aligned ethical culture because American employees strongly prefer working for such an organization. A 2006 study found that 82 percent of Americans would actually prefer to be paid less but work for an ethical company than be paid more but work for an unethical company. Importantly, more than a third of people say that they've left a job because they disagreed with the company's ethical standards. So having a strong ethical culture is an important way to retain the best employees.[13]

Another reason leaders need to create and maintain a strongly aligned ethical culture is that the U.S. Sentencing Commission revised its guidelines for sentencing organizational defendants in 2004 (see www.ussc.gov and Chapter 6 for more information about these guidelines). When the U.S. Sentencing Commission (www.ussc.gov) evaluated the effect of the original 1991 guidelines, it noted that many organizations seemed to be engaging in a kind of "check-off approach" to the guidelines. In responding to guideline requirements to qualify for reduced sentencing and fines, these organizations would establish formal ethics and/or legal compliance programs, including ethics offices, codes of conduct, training programs, and reporting systems. But the commission learned that many of these formal programs were perceived to be only "window dressing" by employees because they were inconsistent with the employees' day-to-day organizational experiences. The commission subsequently revised its guidelines to call for developing and maintaining a strong ethical culture. As a result, many companies are now assessing their cultures to determine how they're doing in relation to ethics so if they do get into legal trouble, they can demonstrate that they have been making sincere efforts to guide their employees toward ethical conduct.

ETHICAL LEADERSHIP

Executive Leaders Create Culture

Executive leaders affect culture in both formal and informal ways. Senior leaders can create, maintain, or change formal and informal cultural systems by what they say, do, or support.[14] Formally, their communications send a powerful message about what's important in the organization. They influence a number of other formal culture dimensions by creating and supporting formal policies and programs, and they influence informal culture by role modeling, the language they use, and the norms their messages and actions appear to support.

The founder of a new organization is thought to play a particularly important culture-creating role.[15] Often, the founder has a vision for what the new organization should be. He or she often personifies the culture's values, providing a role model for others to observe and follow, and guides decision making at all organizational levels. For example, Thomas Jefferson founded the University of Virginia. Although he's long gone, it's said even today that when the governing board of the university is faced with a difficult decision, they're still guided by "what Mr. Jefferson would do." Founders of small businesses frequently play this culture-creating role.

Herb Kelleher is the legendary founder of Southwest Airlines, often cited as the best-run U.S. airline. The no-frills airline started in 1971 and has been growing and flying pretty high ever since, despite many difficulties in its industry. Southwest Airlines has never served a meal, and its planes are in and out of the gate in 20 minutes. During Kelleher's tenure as CEO and chairman, other airlines went bankrupt, suffered strikes, or disappeared. But Southwest continued to succeed even after the terrorist attacks of September 11, 2001, that sent the entire industry reeling. The secret is thought to be the company's culture and an esprit de corps inspired by Kelleher—he believes in serving the needs of employees, who then take great care of customers and ultimately provide shareholder returns. The culture combines efficiency, a family feeling, and an emphasis on fun. In support of efficiency, pilots have been known to load luggage or even clean planes if necessary. During a fuel crisis, Kelleher asked employees to help by providing money-saving ideas. The response was immediate: within only six weeks after Kelleher's request, employees had saved the company more than $2 million. In the area of fun, Kelleher has always been known for his crazy antics, jokes, and pranks. He settled business disputes by arm wrestling; and when a fellow airline CEO criticized Southwest's promotion that featured Shamu, the killer whale, Kelleher sent him a huge bowl of chocolate pudding (meant to resemble whale poop) with a note reading, "With love, from Shamu."[16] Employees are encouraged to make flying fun, so that customers leave every Southwest flight with a smile, and they're encouraged to do that in a way that's spontaneous, emotional, and from the heart.[17] Southwest is seen as a leader in its industry and regularly shows up near the top of *Fortune* magazine's most admired companies. It continues to perform well even after Kelleher stepped down as CEO in 2001. In explaining how they have remained so successful, Colleen Barrett (who stepped down as president in 2008) referred to the culture, saying that Southwest does "everything with passion. We scream at each other and we hug each other . . . we celebrate everything."[18] The walls at Southwest's headquarters are literally covered with photos of employees dressed in crazy outfits or with their pets. But the company is also financially conservative and cost conscious, and these cultural attributes contribute to their ongoing success.

Leaders Maintain or Change Organizational Culture

Current executive leaders can also influence culture in a number of ways.[19] They can help maintain the current culture, or they can change it by articulating a new vision and values; by paying attention to, measuring, and controlling certain things; by making critical policy decisions; by recruiting and hiring personnel who fit their vision of the organization; and by holding people accountable for their actions.

Sometimes new leaders significantly change long-standing corporate culture. Jack Welch, retired CEO of General Electric Company, radically changed the formerly staid bureaucratic culture of GE into a lean and highly competitive organization during his leadership tenure. Welch began the culture change effort by clearly articulating his vision that the new GE would be number one or number two in the world in each of its businesses. Businesses that could not measure up would be sold.

Traditional GE employees had been attracted to the job security of the old GE. But Welch wanted to encourage competitiveness, risk taking, creativity, self-confidence, and dynamism. He recruited managers who were interested in doing a great job and then moving on, if GE no longer needed them. Many of the old-line GE employees found themselves unhappy, out of sync—and, frequently, out of a job.

Welch also focused on identifying and eliminating unproductive work in the organization. He told managers to eliminate reports, reviews, and forecasts; to speed decision cycles; and to move information more quickly through the organization by eliminating unnecessary bureaucratic layers. All of this contributed to the "leaner and meaner" GE culture he created.

Welch's successor, Jeff Immelt (who became CEO in 2001), has changed the GE culture yet again. He announced in 2004 that four things would be required to keep the company on top: execution, growth, great people, and virtue. The first three were consistent with the GE everyone knew. However, most people don't expect the word *virtue* to be associated with a company that earns billions in revenue. But Immelt had learned that people perceived GE to be "a laggard" on the social responsibility front, and he vowed to change that. He has said that, in a world of business ethics scandals, people don't admire business as they used to and that the gulf between rich and poor is growing. As a result, he believes that companies are obligated to provide solutions to the world's problems—not to just make money for shareholders and obey the law. "Good leaders give back. . . . It's up to us to use our platform to be a good citizen."[20] In line with this new focus on virtue, Immelt appointed GE's first vice president for corporate citizenship and has been publishing corporate citizenship annual reports. The company is committing itself to becoming a leader in environmental cleanup and a catalyst for change. You're probably familiar with its "Ecoimagination" initiative that focuses on green initiatives and concern about climate change. This initiative even has its own devoted website (www.ecoimagination.com), as does the GE Citizenship initiative more generally (www.ge.com/citizenship). The company also now audits suppliers in developing countries to ensure compliance with labor, environmental, and health and safety standards. And the company has increased its focus on diversity, including granting domestic partner health benefits to employees, and has entered into dialogue with socially responsible mutual funds. In response to a request from African American employees to do more in Africa, GE is working with the public health service in Ghana, where it has provided equipment, water treatment, and leadership training. In the last edition of this book, we noted that GE's foreign subsidiaries were still doing business with Iran.[21] But in 2008, the company decided it would not do business in any of the countries that the U.S. State Department designates as sponsors of terrorism (including Iran). This move suggests that the company is engaged in ongoing evaluations about where it should be doing business, based upon its values and concern about its reputation.

ETHICAL LEADERSHIP AND ETHICAL CULTURE Clearly, employees take their cues from the messages sent by those in formal leadership roles. But most employees don't know the senior executives of their organization personally. They only know what they can make sense of from afar. Therefore senior executives must develop a "reputation" for ethical leadership by being visible on ethics issues and communicating a strong ethics message. A recent study[22] found that such a reputation rests upon dual dimensions that work together: a moral person dimension and a moral manager dimension (see Figures 5.1 and 5.2). In this section, first we explain what each dimension represents and then we combine these dimensions into a matrix that shows how leaders can develop a reputation for ethical leadership, unethical leadership, hypocritical leadership, or ethically neutral leadership.

Executive Ethical Leadership Is about Reputation, Which Rests on These Two Pillars

Moral Person	**Moral Manager**
Tells followers how leader behaves	Tells followers how they should behave and holds them accountable
Traits • Honesty • Integrity • Trust	**Role Modeling** Takes visible ethical action
Behaviors • Openness • Concern for people • Personal morality	**Rewards/Discipline** Holds people accountable for ethical conduct
Decision making • Values-based • Fair	**Communicating** Sends an "ethics and values" message

Executive Ethical Leadership Reputation Matrix

		Moral Person	
		Weak	**Strong**
Moral Manager	**Strong**	Hypocritical leader	Ethical leader
	Weak	Unethical leader	?
		← Ethically neutral leader →	

FIGURE 5.2 Executive Ethical Leadership

The moral person dimension represents the "ethical" part of the term *ethical leadership* and is vital to developing a reputation for ethical leadership among employees. As a moral person, the executive is seen first as demonstrating certain individual traits (integrity, honesty, and trustworthiness). For example, one executive described ethical leaders as "squeaky clean." But probably more important are visible behaviors.

These include doing the right thing, showing concern for people and treating them with dignity and respect, being open and listening, and living a personally moral life. To some extent, senior executives live in glass houses. They are often public figures who are active in their communities. So they need to be particularly careful about their private behavior. Rumors can begin quickly and taint an otherwise solid reputation. Finally, an important contributor to being perceived as a moral person is to make decisions in a particular way—decisions that are explicitly based on values, fairness, concern for society, and other ethical decision rules.

But being a moral person is not in itself enough to be perceived as an ethical leader. Being a moral person tells employees how the leader is likely to behave, but it doesn't tell them how the leader expects them to behave. So to complete the ethical leadership picture, executives must also act as "moral managers"—they must focus on the "leadership" part of the term *ethical leadership* by making ethics and values an important part of their leadership message and by shaping the firm's ethical culture. They do that by conveying the importance of ethical conduct in a variety of ways. Most of the messages employees receive in business are about bottom-line goals. Therefore, senior executives must make ethics a priority of their leadership if ethics is to get attention from employees. Moral managers do this by being visible role models of ethical conduct, by communicating openly and regularly with employees about ethics and values, and by using the reward system to hold everyone accountable to the standards. This "moral person/moral manager" approach is similar to what executive headhunters Thomas Neff and James Citrin list as their number one strategy (of six) of corporate stars: "Live with Integrity, Lead by Example." They say, "Integrity builds the trust in senior management that is critical for high-performing organizations."[23]

James Burke, former CEO of Johnson & Johnson, is probably the best-known example of a highly visible ethical leader. Soon after being appointed CEO in the late 1970s, he challenged his senior managers to revisit and update the company's age-old credo (discussed later in more detail). He wasn't willing to have it hanging on the wall unless his senior managers were committed to living it. After much disagreement, discussion, and input from J&J sites around the world, the credo was revised and its commitment to customers first and foremost was intact. Less than three years later, the Tylenol poisoning occurred (described in Chapter 10), and the credo guided corporate decision making successfully through the crisis. Following that crisis, Burke initiated a regular credo survey process in which employees were asked about the company's performance regarding the credo—and that process continues to this day.[24] It was clear to employees that Burke really cared about the credo and the values it represented.

When Paul O'Neill first became CEO at Alcoa, he brought with him a profound concern for worker safety. Although Alcoa already had an enviable safety record at the time based on industry standards, O'Neill created a goal of zero lost work days from accidents—a goal that flabbergasted even the safety director. When O'Neill visited plants, he told employees that the company was no longer going to budget for safety—if a hazard was fixable, they should do it and the company would pay for it, no questions asked. Then he gave the hourly workforce his telephone number at home and told them to call him directly about safety problems. He created an accident reporting system that required reporting within 24 hours of any accident, no matter how small, and he used the reports as an opportunity for learning so that future accidents could be avoided. He also got on an airplane and visited employees who had been seriously hurt, no matter where in the world they were. Safety messages were everywhere, including woven into the carpets at some Alcoa sites. And when employees in the Pittsburgh headquarters crossed the street, they were careful not to jaywalk because it was "unsafe." Years after O'Neill retired, Alcoa continued to improve until it became the safest company in the world.

In the completely different arena of diversity, O'Neill again stood out for his principled leadership. In his first week on the job, his secretary asked him to sign papers to join a country club. This had been standard procedure in the past because

CEO membership was required in order for other Alcoa executives to join and use the club. Upon asking for certification that the club did not discriminate, he learned that the club did not have an open membership policy. O'Neill refused to sign the papers and developed a new policy saying that Alcoa would not reimburse any employee expenses at a place that did not allow admission to anyone who wanted it. O'Neill was encouraged not to rock the boat and to wait before making such a huge change. His response was, "What excuse am I going to use six or twelve months from now? I've just discovered my principles? They were on vacation . . . when I first came?" He explained that you have to have the courage of your convictions and insist on them all of the time, not just when it's convenient.[25]

Similar to business leaders, coaches of college sports are expected to set and enforce ethical standards. Joe Paterno, the legendary Penn State football coach, and Dean Smith, former coach of the University of North Carolina basketball team, are coaches who exemplify moral management. They set high expectations (for performance and ethics), create rules and policies for appropriate behavior, and enforce them.[26]

Coaches are also held responsible when ethical violations are discovered among players, assistants, and boosters. A number of coaches have lost their jobs or resigned because of such violations.[27] When wrongdoing occurs in any type of organization, top managers are frequently held accountable even if they weren't personally involved. For example, the executives of Arthur Andersen, Enron, WorldCom, Adelphia, Boeing, and AIG Insurance were all replaced soon after ethical scandals came to light.

Coaches and business leaders are subject to immense pressure to win, and it can be tempting to put intense pressure on their people to bend or even break the rules. Ethical leaders maintain their principles through good times and bad. Bill George, retired CEO of Medtronic, a maker of medical devices, recounts a story about the time he had to tell analysts that, despite growing 15 percent for the quarter, the company's earnings would fall short of analysts' expectations. The analysts berated him and called him a liar. Such experiences drive some executives to fudge the numbers to meet Wall Street expectations. But true ethical leaders are not dominated by this pressure. They learn to ignore these outside voices and begin to listen more to their own inner voice and values. In George's case, he learned an important lesson when he visited a doctor who was performing an angioplasty with one of the company's balloon catheters that literally fell apart during the procedure. The doctor was so angry that he took the blood-covered catheter and threw it at George. What was the lesson for this ethical leader? Medtronic workers don't make pacemakers to please Wall Street. Their goal is to save lives. According to George, "the CEO can't have the shareholder centrally in mind when making decisions. . . . America's leading corporations became great not by getting their share prices up but by doing what they were set up to do incredibly well."[28]

UNETHICAL LEADERSHIP Unfortunately, unethical leaders can just as strongly influence the development of an unethical culture. In terms of our matrix, unethical leaders have reputations as weak moral persons and weak moral managers. In interviews, senior executives cited Al Dunlap as a senior executive with a reputation for unethical leadership. John Byrne of *Business Week* wrote a book about Dunlap (*Mean Business*, 1997) and published excerpts in the magazine. According to Byrne, Dunlap became famous for turning struggling companies around. When hired at Sunbeam, he was considered such a celebrity CEO that the stock price spiked 49 percent in one day. But while at Sunbeam, he was also known for "emotional abuse" of employees—being "condescending, belligerent and disrespectful." "At his worst, he became viciously profane, even violent. Executives said he would throw papers or furniture, bang his hands on his desk, and shout so ferociously that a manager's hair would be blown back by the stream of air that rushed from Dunlap's mouth." Dunlap also demanded that employees make the numbers at all costs, and he rewarded them handsomely for doing so. As a result, they felt pressure to use questionable accounting and sales techniques. Dunlap also lied to Wall Street, assuring them that the firm was making its projections and would continue to reach even higher. After just a couple of years, Dunlap couldn't cover up the real state of affairs, and Sunbeam's board fired him in 1998. But he left the company crippled.[29] In 2002, Dunlap settled a civil suit filed by the Securities and Exchange Commission (SEC). He paid a $500,000 fine and agreed that never again would he be an officer or a director of a public company. Investigators learned that allegations of accounting fraud on Dunlap's watch go back to the 1970s and follow him through a number of companies.

HYPOCRITICAL LEADERSHIP Perhaps nothing can make us more cynical than a leader who talks incessantly about integrity and ethical values but then engages in unethical conduct, encourages others to do so either explicitly or implicitly, rewards only bottom-line results, and fails to discipline misconduct. This leader is strong on the communication aspect of moral management but clearly isn't an ethical person—doesn't "walk the talk." It's a "do as I say, not as I do" approach. Al Dunlap made no pretense about ethics. All that mattered was the bottom line, and he didn't pretend to be a nice guy. But hypocritical leadership is all about ethical pretense. The problem is that by putting the spotlight on integrity, the leader raises expectations and awareness of ethical issues. At the same time, employees realize that they can't trust anything the leader says. That leads to cynicism, and employees are likely to disregard ethical standards themselves if they see the leader doing so.

Jim Bakker remains the best public example of hypocritical leadership. In the late 1970s and early 1980s, Bakker built Praise the Lord (PTL) ministry into one of the world's biggest religious broadcasting empires. At its peak, Bakker's television ministry reached more than 10 million homes and had 2,000 employees. Bakker, along with his wife, Tammy Faye, claimed to be doing "the Lord's work" as he raked in millions of dollars, convincing the faithful to purchase a limited number of lifetime memberships in two hotels he claimed would be built at the PTL's Heritage USA Christian theme park. The problem was that the 25,000 lifetime memberships (promising a free annual family stay for four days and three nights) in the Heritage Grand Hotel morphed into 66,683 memberships. And, instead of the limited 30,000 memberships at the proposed Heritage Towers, PTL sold 68,755 memberships. You do the math. It would be impossible to provide promised services to this many people. On top of that, the second hotel was never completed. The funds donated for these projects were being tapped to support PTL operating expenses, including huge salaries and bonuses for the Bakkers and other top PTL officials. When questioned at times about PTL's finances, Bakker referred to the organization's annual audits conducted by big auditing firms such as Deloitte and Laventhol. Unfortunately, PTL filed for bankruptcy in 1987, three months after Bakker resigned in disgrace. The IRS revoked PTL's tax-exempt status, and in 1989 Bakker was convicted on fraud and conspiracy charges. He spent eight years in prison.[30]

A more recent example of hypocritical leadership is Lord John Browne, formerly the CEO of BP. Under Browne's leadership, the company launched a $200 million "Beyond Petroleum" campaign to promote its image as a highly socially responsible company that would deliver performance without trading off worker safety or environmental concerns. But when BP's Texas City plant exploded (killing 15 workers and injuring many more) and two big oil spills occurred in Alaska, regulators and employees cited cost cutting on safety and negligence in pipeline corrosion prevention as causes. It seemed that the Beyond Petroleum campaign was more about words than action. Greenpeace awarded Browne the "Best Impression of an Environmentalist" award in 2005, and the CEO was finally asked to resign in 2007 after a scandal in his personal life surfaced.[31] The lesson is pretty clear. If leaders are going to talk ethics and social responsibility (as they should), they had better "walk the talk" or risk cynicism or worse.

ETHICALLY NEUTRAL OR "SILENT" LEADERSHIP The fact is that many top managers are not strong leaders either ethically or unethically. They fall into what employees perceive to be an ethically "neutral" or ethically "silent" leadership zone. They simply don't provide explicit leadership in the crucial area of ethics. They are perceived to be silent on this issue, and employees aren't sure what the leaders think about ethics, if anything. This may be because the leader doesn't realize how important executive ethical leadership is to the organization's ethical culture, isn't comfortable with talking about ethics issues, or just doesn't care that much. On the moral person dimension, the ethically neutral leader is not clearly unethical but is perceived to be more self-centered than people-oriented. On the moral manager dimension, the ethically neutral leader is thought to focus on the bottom line without setting complementary ethical goals. Little or no ethics message is coming from the top. But it turns out that silence represents an important message. In the context of all the other bottom-line-oriented messages being sent in a highly competitive business environment, employees are likely to interpret silence to mean that the top executive really doesn't care how business goals are met (only that they are met), and they'll act on that message.[32]

Consider Sandy Weill, former charismatic CEO of Citigroup. Well before the current financial crisis, a *Fortune* magazine article described the firm as a "blockbuster money machine." But the article also recounted scandalous allegations about

Citigroup and its Salomon Smith Barney unit (now sold off). "Citi helped Enron hide debt; Salomon peddled worthless WorldCom debt; Star analyst Jack Grubman recommended Winstar as it was heading for bankruptcy; Salomon rewarded telecom execs with hot IPOs," and more.[33] In 2004, Japan shut down Citigroup's private bank in Japan that had made $84 million for the company in 2003. Regulators listed a long series of transgressions including money laundering, sales of unsuitable products to customers, and generally sloppy business practices.[34] The company spent lots of time and money playing defense with the media, responding to ugly headlines on a regular basis. According to *Fortune*, Weill eventually became contrite and "got religion," if a bit late. Weill told his board that . . . his most important job . . . was "to be sure that Citigroup operates at the highest level of ethics and with the utmost integrity."[35] However, the article also cited widespread cynicism about that statement, noting that Weill was often "tone deaf" on these ethics issues.

At least from the perspective of outside observers, Weill exemplified "ethically neutral" leadership. Being tone deaf on ethics issues is exactly what ethically neutral leadership is about. Weill's public statement that the "company is too big to micromanage" applies to his approach to managing ethics. He said a CEO relies on "very competent people" and trusts them to do a good job. In the case of ethics management, that meant leaving it to the executives running Citi's various businesses. If the head of a division thought ethics was important, ethics got resources and attention. If the head didn't promote ethics, attention turned elsewhere, and most likely to financial performance goals. So, with a kind of benign neglect, Weill sat on the sidelines and provided little ethical leadership. And with corporate rewards focused on the bottom line, managers had little motivation to attend to other issues. As a result, employees didn't know for sure where Weill stood. But the intense focus on the bottom line suggested that profits were most important, and many employees probably acted accordingly. This approach to ethics is in sharp contrast to prior CEO John Reed's leadership on ethics issues. Reed spent almost his entire career at Citicorp and was its CEO when the huge American financial powerhouse merged with Weill's Travelers organization to form Citigroup. Reed, who was a banker his entire life, understood in his gut how important reputation is to a financial institution. As a result, he encouraged and supported the development of a strong, centralized corporate ethics program with global reach. Interestingly, the people associated with that program were quickly gone, and much of the program itself was dismantled after Weill took over.

Weill stepped down in 2003 and handed the CEO reins to Chuck Prince, who continued to address the scandals that Weill left behind—including $8 billion in scandal-related charges that had to be absorbed. Prince fired high-level people involved in scandals, including the chairman of Citigroup International who had been credited with a 30 percent increase in international earnings in 2003. In an interview with *Fortune* magazine, Prince said:

> John Reed [CEO before Weill] told me once that culture is a set of shared, unspoken assumptions. . . . I think the larger the company has become, the more we need to *speak* about those unspoken assumptions.

> We need to add to our celebration of financial performance a focus on long-term compliance activities, long-term franchise building, being in it for the long term. So one of the things we're going to put into place, starting in 2005, is a series of activities—training, communications, performance appraisals—that will lend a little more balance to the aggressive financial culture that we have always celebrated, and that I still do.
>
> Short-term growth at the cost of long-term growth is a very bad trade. Some people make that bad trade when they only hear one instrument in the orchestra. If they hear the full orchestra, the full panoply of messages, then people have "no excuses"—that's the sign on my desk—no excuses.[36]

The more Prince scrutinized the organization, the more concerned he became about loose internal controls. He began to add resources to legal compliance. He even moved his office, from next to Weill's to the floor below, and began consulting more with John Reed.[37] But Prince seemed to feel powerless to really change the culture that Weill had planted and that had taken root. Prince once confessed that he knew the bank's aggressive deal making could mean big trouble if the easy money stopped flowing. "As long as the music is playing, you've got to get up and dance," he told the *Financial Times* in summer 2007, even as credit markets began to shudder. "We're still dancing."[38]

The firm suffered severe performance problems under Prince's leadership, and he was replaced by Vikram Pandit in late 2007. Citigroup, along with several other financial institutions considered "too large to fail," was rescued in the fall 2008 U.S. government bailout of financial institutions. The firm was in trouble because of losses related to risky mortgage-backed securities, which we speculate may have something to do with the laxity around ethical standards created under Weill. Experts conclude that Citigroup failed to integrate its varied businesses and failed in monitoring its risky investments and freewheeling operations. Many point to the repeal of the Glass-Steagall Act, which separated commercial banks from investment banks and insurance, as one of the root causes of the 2008–2009 financial crisis. Weill had championed this deregulation, and it made Citigroup possible. Recently, John Reed expressed regret at his role in urging repeal of Glass-Steagall, but Weill would have none of it. "When asked about Reed's apology, Mr. Weill says, 'I don't agree at all.' Such differences, he says, were 'part of our problem.'"[39]

Research has found that executive ethical leadership is critical to employees. Unethical behavior is lower, and employees are more committed to their organization, more ethically aware, and more likely to engage in positive helping behaviors (including reporting problems to management) in firms that have an ethical culture characterized by top executives who are strong ethical leaders.[40] Research has also found evidence that executive ethical leadership flows down through the organization, affecting supervisors' ethical leadership behavior and finally employee behavior.[41] But interestingly, senior executives are often not aware of how important their ethical leadership is. Many believe that being an ethical person who makes ethical decisions is enough. But it isn't enough. Executives must lead on this issue (be moral managers) if it is to register with employees. In a highly competitive environment of intense focus on the bottom line, employees need to know that the executive leaders in their organization care about ethics at least as much as financial performance. An ethical leader makes it clear that strong bottom-line results are expected, but only if they can be delivered in a highly ethical manner. Leaders may talk in terms of reputation or use other language they find comfortable. But the message must be that the firm's long-term reputation is an asset that everyone must protect.

OTHER FORMAL CULTURAL SYSTEMS

Selection Systems

Selection systems are the formal systems that are in place for recruiting and hiring new employees. Selection systems are vital to hiring people who fit the culture of the firm. For example, all employees at Southwest Airlines (including pilots) are selected based on their personalities (traits that include cheerfulness, optimism, and team spirit) among other credentials. So it's not surprising to find pilots helping to clean the cabin when time is short, and flight attendants throwing gate parties on Halloween and telling jokes to passengers over the plane's loudspeakers.[42]

When considering the ethical culture, organizations can avoid ethical problems by recruiting the right people and by building a reputation that precedes the organization's representatives wherever they go. Companies can conduct background checks, check references, administer integrity tests, and survey applicants using some of the individual differences discussed in earlier chapters. For example, they might be wary of hiring someone high on Machiavellianism if they're trying to create a cooperative culture where people help and support each other. Interviewers can also ask ethics-related questions in interviews, for example, by asking candidates about ethical issues they've confronted in the past and how they've handled them.

In an article entitled, "Can You Interview for Integrity?" William Byham[43] offered a series of questions an interviewer concerned about ethics might ask a recruit. Here are adaptations of some of them:

1. We sometimes have to choose between what we think is right and what's best for the company. Can you give an example of such a time and tell how you handled it?
2. Can you describe your current employer's ethics? Are there things you feel good about? bad about?
3. Please provide an example of an ethical decision you've made at work and tell how you handled it. What factors did you consider?
4. Can you provide an example of some past work behavior that you've regretted? How would you behave differently today?

5. Have you ever felt the need to exaggerate or bend the truth to make a sale?
6. Have you ever observed someone else stretching the rules at work? What did you do, if anything?
7. People are often tempted to make something seem better than it is. Have you ever been in such a situation?
8. Have you ever had to go against company policies in order to accomplish something?
9. Have you ever managed someone who misled a client? How did you handle it?
10. What's your philosophy of how to think about policies? Are they guidelines, to be followed to the letter?

Our students have been asked similar types of questions in interviews with the best companies. Are you prepared to answer questions like these?

Recruiters can also inform prospective employees about the importance of integrity in their organization and what happens to those who break the rules. Companies that are serious about integrity can include statements about their values and expectations in recruiting literature, in the scripts recruiters use when interviewing job candidates, in offer letters to candidates, and in new-hire orientation programs.

Coach Joe Paterno was outspoken on this topic in our interview with him. He claimed that the Penn State football program avoids lots of problems faced by other college sports organizations by being absolutely clear up front about its commitment to education for its athletes and to doing things "by the [NCAA] book":

> I think our reputation eliminates most problems before we start. Because we do have a reputation. If a kid is looking for some kind of a deal, he generally won't fool around with us. But, I remember one kid whose dad openly said, "He can't live on that. He's gotta have more money than that." I said, "That's all we can do." He said, "Well, somebody will give it to us." I wished the kid luck and walked out of the house.

Because the Penn State football program has a reputation for integrity, Coach Paterno and his staff rarely face such requests. Those who are looking for money under the table know to look elsewhere. And athletes who break the rules know in advance that they'll be disciplined.

These days, companies also need to be very selective when recruiting leaders who are being considered for important decision-making roles in the firm. Many recent business scandals have zeroed in on company chief financial officers (CFOs) who played with the numbers to make it look as if profit goals expected by Wall Street had been achieved when, in reality, they had not. Such individuals must display the strongest moral character in order to withstand marketplace pressures to make the numbers look good. Questions about how they would respond to such pressures and how they have handled them in the past can be useful in selecting these key players.

Values and Mission Statements

Once employees are on board, many organizations aim to guide employees' behavior through formal organizational value statements, mission statements, credos, policies, and formal codes of ethical conduct. Value and mission statements and credos are general statements of guiding beliefs. Most companies have them, but it's important that the values and mission statement be closely aligned with other dimensions of the culture. According to James Collins, coauthor of *Built to Last: Successful Habits of Visionary Companies*, "the words matter far less than how they are brought to life. The mistake most companies make . . . is not setting up procedures to make sure the mission is carried out." If the policies and codes are followed in daily behavior and people are held accountable to them, this is another example of a strong ethical culture in alignment.

In the year 2000, Verizon's published core values were integrity, respect, imagination, passion, and service. But consider this. Customer service representatives were expected to finish each call with the following question (in precisely these words) to the customer: "Did I provide you with outstanding service today?" During a strike in the fall of 2000, workers cited this disconnect between values and operating procedures as a source of stress and cynicism. Asking customer service representatives to follow a specific "script" (that sometimes led to irate customers becoming even more irate) did not respect the individual customer service representative's ability to serve the customer in a more natural way, and it certainly didn't allow the employee to use imagination or passion in providing customer service. The script may have been well intentioned, but it conflicted with several of the core values professed by the company and appeared hypocritical to employees. Stated values that are inconsistent with management practice can quickly generate employee cynicism.[44] Wouldn't it be better and more consistent with the value of respect to simply ask service representatives to end their calls with a question about whether the customer was satisfied with the quality of service, but let the representatives choose their own words?

Probably the most famous example of an effective mission and values statement that is aligned with other cultural systems is the Johnson & Johnson credo, which outlines the pharmaceutical company's commitments. Probably most important is the statement that the company's "first responsibility is to the doctors, nurses and patients, to the mothers and fathers and all others who use our products and services." Other responsibilities follow, for example, to employees, suppliers, communities, and finally stockholders. Notably, stockholders are listed last under the assumption that if the other responsibilities are taken care of, stockholders will do well. On its website (www.jnj.com), the company includes a video about the credo and "how it lives in the Johnson & Johnson family,":

> The values that guide our decision making are spelled out in our Credo. Put simply, Our Credo challenges us to put the needs and well-being of the people we serve first. Robert Wood Johnson [founder] . . . crafted Our Credo himself in 1943. . . . This was long before anyone ever heard

> the term "corporate social responsibility." Our Credo is more than just a moral compass. We believe it's a recipe for business success.

Most famously, the corporation drew on its credo for guidance during the Tylenol crises of the 1980s, when the company's product was adulterated with cyanide. Company managers and employees made countless decisions (including recalling all Tylenol at huge cost) that were inspired by and consistent with the credo's guidance. Today, company employees participate in a periodic survey and evaluation of how well the company performs its credo responsibilities. Survey results are then fed back to the senior management, and corrective action is taken to correct any shortcomings. The current CEO, Bill Weldon, also makes a point of visiting employees who are moving into leadership positions around the world to discuss real problems and how the credo applies to them. As one recent example, in 2007, the company reported itself to the SEC and Justice Department when it discovered possible violations of the Foreign Corrupt Practices Act (discussed further in Chapter 11).

It takes little for a company to make a formal statement like the J&J Credo, but it takes quite an ongoing commitment to actually follow it.[45] Certainly, Johnson & Johnson has had its share of ethical problems. But when you talk to current J&J employees, they talk easily about the credo, its importance in the J&J culture, and how it guides ethical conduct in the organization.

When you are considering joining an organization, look for the organization's values statement and ask employees for examples of how the organization lives its values (or doesn't). Such a question can provide useful insight into cultural alignment and misalignment by making clear whether the values statement represents lofty formal statements with little basis in reality or "values in use" that represent how people really behave every day. It's important to ask yourself whether your own stated values (you should have assessed them in Chapter 2) match up with the organization's values. If they do, and you have evidence that this is an organization that lives its values, you're on your way to a job you'll find satisfying.

Policies and Codes

Formal ethics policies (often called codes of ethics or codes of conduct) are longer and more detailed than broad values and mission statements. They provide guidance about behavior in multiple specific areas. For example, most ethics codes address issues of respectful treatment of others, conflicts of interest, expense reporting, and the appropriateness of giving and receiving gifts. Policy manuals are even lengthier than codes and include more detailed lists of rules covering a multitude of job situations that are specific to the industry, organization, and type of job. An extended discussion of policies and codes follows in Chapter 6.

Most ethics codes were introduced within the past 30 years. A mid-1990s study of the *Fortune* 1000 found that 98 percent of these large firms reported addressing ethics and conduct issues in formal documents. Of those 98 percent, 78 percent had codes of ethics.[46] In a 2005 Ethics Resource Center study, 86 percent of respondents from a wide variety of employers across the United States reported that the private sector, public sector, and not-for-profit organizations they work for have formal ethics policy standards.[47] So it's fair to say that most employers are making an effort to provide formal guidance to their employees regarding ethical and legal conduct. It's also important to note that these codes are living documents that are revised regularly in response to changing conditions. For example, early ethics codes said nothing about Internet privacy or social networking guidelines, but these topics are much more common in today's codes.

Most companies with codes now distribute them quite widely. A 1995 survey of *Fortune* 1000 firms found that 75 percent of responding companies reported distributing their code or policy to at least 80 percent of their employees.[48] This finding may be a by-product of the U.S. Sentencing Guidelines (discussed in Chapter 6), which specify communication of compliance standards to all employees as a guiding principle. Research has found that when employees are familiar with the code and refer to it for guidance, they are less likely to engage in unethical behavior, more likely to seek advice about ethical issues, and more likely to report ethical rule violations.[49] But, to have real influence on behavior, a code must be enforced.[50] Otherwise, codes of conduct are more likely to be viewed as mere "window dressing" rather than guides for actual behavior.

Many firms post their codes on their websites. Some firms also distribute their codes beyond their own employees to vendors and suppliers who are explicitly asked to comply. For example, a supermarket company distributed its code to its suppliers along with a letter, signed by the president:

> Dear Business Associate:
>
> As the holidays draw near, we are mindful of the mutually satisfying and mutually profitable relationship which exists between our company and our suppliers. We look forward to many more years of successful growth together through our joint efforts to provide our customers with quality products, excellent service and low price.
>
> In recent years, we have found many of our staff members embarrassed by well-intentioned gifts from those with whom we do business. Our Board of Directors approved the enclosed Code of Ethics which clearly states our policy prohibiting our Associates from accepting gifts from our suppliers and customers. We feel that this policy should apply during the holidays as well as throughout the year.
>
> With so much attention being given to practices which bring the business community's ethics into question, we urge your support of our efforts to maintain the respect and confidence of the industry for the objectivity of our dealings with suppliers.
>
> Since failure to comply with our policy will result in disqualification from further business dealings with us, we request that you distribute this letter to those in your company who have business dealings with our corporation and its subsidiaries.

> The most significant means of expressing your appreciation to our staff continues to be your efforts to help us grow together by anticipating and meeting the changing consumers' needs and wants.
>
> If you have any questions regarding this policy, please contact. . . .
>
> With our best wishes for happy holidays and a healthy and prosperous New Year.

Companies are also taking more responsibility for the behavior of suppliers, even if those suppliers are in foreign countries. If Nike or Wal-Mart buys shoes or clothes from a factory in Asia, these firms are increasingly aware that the supplier's actions are their responsibility. As an example, Wal-Mart requires its suppliers to agree to comply with its code of ethical conduct and requires that suppliers post its free 1-800 reporting telephone number at work sites. We'll discuss this topic further in Chapter 11.

The idea of guiding behavior with codes of conduct extends to higher education institutions, where many colleges have honor codes that apply to academic (e.g., test cheating, plagiarism) and sometimes even nonacademic (job search) behavior. Research on honor codes in colleges and universities suggests that students cheat less in institutions that have honor codes.[51] However, students' perceptions of their peers' cheating has an even stronger influence on cheating behavior than the existence of a code. In addition, the certainty of being reported and the severity of penalties are important because they support the idea that the code alone is not the most important influence.[52]

Managers, especially middle managers, want to have a stated organizational policy or code when it comes to serious ethical matters. Remember, cognitive moral development research tells us that most people are looking outside themselves for guidance, and stated organizational policy can be an important source of that guidance. To determine where policy is needed, the organization can survey managers about areas of ethical concern and their perception of the need for policy in each area. In one study, managers made it clear that policy was needed in such areas as expense claims, gifts and bribes, and treatment of competitor information.[53]

Orientation and Training Programs

Socialization into the ethical culture is often begun through formal orientation programs for new employees and is reinforced through ongoing training. The organization's cultural values and guiding principles can be communicated in orientation programs. Employees often receive an introduction to the values and mission statements as well as the company's history and current code of conduct. But new employees are so overwhelmed with information that it's important to follow up with training programs that offer more specific guidance. An increasing number of firms have added ethics to their list of training programs. Some have done so as a result of the revision of the U.S. Sentencing Commission Guidelines and the Sarbanes-Oxley legislation that requires public companies to conduct compliance training at all levels, including senior executives and the board of directors. Most *Fortune* 1000 firms provide some ethics training,[54] and many of them do so annually. In the 2005 Ethics Resource Center study,[55] 69 percent of people surveyed said that their employers provide ethics training and that this training is generally mandatory. Some companies use online ethics training; others use classroom face-to-face training. In Chapter 6, we'll present more specifics about how different firms conduct ethics training.

It's important to note that the ethics training must be consistent with other ethical culture systems, because a training program that is out of alignment with other culture systems is thought of, at best, as a pleasant day away from the office. At its worst, the ethics training is seen as an obstacle to getting "real" work done—or even as a joke. For example, a young man who worked in mortgage lending in 2006 said that his company had provided a high-quality weeklong training program to prepare him for his job. Among other more technical aspects of his job, he was taught to advise clients to be sure that they could afford their payments and to avoid incurring additional credit card debt. He felt that this was smart and caring advice, and he felt good about his new role. But when he returned to the office, his "mentor" (who had been in the job only six months longer than he had) told him that all that mattered was closing the deal and making money for himself and the company, and that "advising" clients was a waste of time. If his "advisor" role had been reinforced by his mentor, the cultural message would have been entirely different. Perhaps the company's fate would have been different as well—it no longer exists.

Performance Management Systems

Performance management systems involve the formal process of articulating employee goals, identifying performance metrics, and then providing a compensation structure that rewards individual—and frequently team—effort in relation to those goals. Performance management systems also include formal disciplinary systems that are designed to address performance problems when they arise. An effective performance management system is a key component of the ethical culture. The system plays an essential role in alignment or misalignment of the ethical culture because people pay attention to what is measured, rewarded, and disciplined. So if employees with integrity are the ones who get ahead, and unethical behavior is disciplined, that process goes a long way toward promoting an ethical culture.

DESIGNING A PERFORMANCE MANAGEMENT PROCESS THAT SUPPORTS ETHICAL CONDUCT Because people "do what's measured and rewarded," the best way for an organization to design a comprehensive performance management system is to spend time identifying which factors drive the results the organization strives to achieve. This type of corporate soul-searching generally results in a list of these factors, both financial and nonfinancial. Just as *Fortune* magazine considers reputation when designing its famed "lists" of admired companies, many sophisticated companies understand that reputation, in many cases, drives long-term financial results. However, many companies continue to design performance management programs that consider only financial results. They ignore the nonfinancial drivers that can actually serve as the underpinning of the numbers. These companies focus on *what* business results are delivered, and they ignore *how* those results were achieved. That is probably the fastest way for an organization's ethical culture to get out of alignment.

Here's how performance management systems can be designed to get great results the right way. First, an organization needs to focus on the mechanics. For example, once an organization understands what is necessary to drive results, it needs to set goals to achieve those desired results and metrics to determine whether the goals are being met. Real success in this area comes when organizations effectively communicate those goals to every employee, helping employees identify how each person can create value for the organization and then rewarding employees fairly for their contribution to achieving those corporate goals. Once the mechanics are in place, the next challenge is to marry the *what* with the *how*, and that's where an organization's articulated values come in. Those values—probably concerning the importance of people, integrity, diversity, customer service, and so forth—need to be translated into behavior metrics that every employee is held accountable for. When such a process is in place, high fliers who exceed all of their numbers can be held accountable for *how* they met those numbers because this step is built right into their performance expectations and rewards process. A good example is an account executive with a leading consulting company who managed her firm's relationship with many of the largest companies in New York City. Her clients generated revenues in the millions for her firm, and that fact alone would ordinarily be enough to ensure that she was named a partner in the firm. However, the senior management team was so upset at how she trounced the firm's stated value of "treating people with respect"—she was extremely abusive to her coworkers—that they repeatedly denied her promotion. Of course, one could argue that she shouldn't have a job at all. But at least her behavior—the *how* involved in attaining her huge results—prevented her from being promoted and esteemed as a partner.

American Express has tied its performance appraisal system directly to its values and code of conduct. The values are associated with a culture that focuses on long-term results as well as the desire to be an "employer of choice." The company's ethics code states the expectation that leaders will be ethical role models who exhibit the highest standards of integrity, develop employees, communicate the company's ethical expectations and their own support for those expectations, and create an open environment so that employees feel free to express their concerns. The company's 360-degree performance management process for senior leaders then identifies a number of leadership competencies, including explicit examples of high performance such as the following:

- Treats others with respect at all times; is fair and objective
- Actively listens and incorporates input from others
- Acts with integrity

- Inspires the trust of the team, is reliable and consistent
- Talks openly and honestly—says it as it is

Examples of poor performance are also part of the system (e.g., "breaks promises, is inconsistent, fails to show respect for others").

The ratings of these competencies are weighted substantially in promotion and compensation decisions, thus making it difficult to get promoted if one is rated poorly on these ethical leadership competencies and important to be rated highly if an employee wants to advance. Finally, the company is investing resources in providing leaders with the necessary skills so that they can effectively fulfill the company's expectations consistent with its values.[56]

Alignment of the goals and rewards with the organization's values is essential because employees will generally do what's measured and rewarded, and they'll assume that the behaviors that are rewarded represent the "real" ethical culture. So, in the American Express example, behavior consistent with the company's stated values is measured and rewarded with promotions and compensation. This is a great example of ethical culture alignment.

But misalignment of rewards with other aspects of the ethical culture is quite common. For example, imagine an organization where everyone knows that the top sales representative's sales depend on lying to customers about delivery dates despite an ethics code that talks about customer satisfaction as a key value. Not only does the unethical conduct go undisciplined, but the sales representative receives large bonuses, expensive vacations, and recognition at annual sales meetings. Members of the sales force recognize that information about what is rewarded carries the "real" cultural message, and so the code becomes meaningless—or worse yet, an example of top management's hypocrisy.

For an ethical culture to be in alignment, poor performance against stated ethical goals must also be addressed quickly and fairly. For example, dishonest or disrespectful behavior (or any behavior inconsistent with ethical values) should be disciplined using a progressive disciplinary system that employees perceive to be fair. For example, a first offense (unless it is particularly serious) is usually addressed in a constructive manner that gives the employee the opportunity to provide input and to change the behavior. Subsequent misconduct is addressed more severely, and dismissal is the ultimate outcome for repeat or serious offenses. It's also important that employees be disciplined equally across organizational and performance levels. That means the successful star executive as well as the lower-level employee must be disciplined for knowingly breaking the rules. In fact, at that higher level, the discipline should probably be quicker and harsher because the higher in the organization one goes, the more responsibility one holds, and the more one is a role model for others. As a result of recent scandals and increased scrutiny by regulators, companies are taking discipline more seriously. Even the perception of unethical behavior can lead companies to dismiss high-level executives in the current environment.

Penn State football coach Paterno, in our interview with him, was clear about the importance of rules and their enforcement with every player. "The players know what the penalties are. They have a pretty good idea of what's going to happen to them if they break the rules. . . . If I tell the players we have a rule, we have to enforce it and apply it to everyone. You can't say this is the rule and it's for everybody but your top quarterback." Paterno showed how he held players accountable when the Penn State team played its 1998 bowl game without two star players. One had academic problems, and the other had been accused of taking a gift from a sports agent. The team lost, but the program's integrity was intact. Interestingly, Paterno's rule enforcement extends to alumni and boosters who have gotten other football programs in big trouble with the NCAA. Penn State regularly sends letters reminding football game ticket holders about their responsibility to uphold the integrity of the football program. And, according to Paterno, some alumni have lost their rights to buy tickets because of past violations.

The bottom line is that performance management systems are important in themselves because they provide guidance about expected behavior, but they're particularly important in the sense that people look to them to reflect the "real" message about what is valued in the organization. The essential question is whether consistency exists between what the organization says (e.g., values statements, codes) and what it actually measures, rewards, and punishes.

Organizational Authority Structure

Ethical cultures should guide individuals to take responsibility for their own behavior, question orders to behave unethically, and report misconduct or problems. A strong ethical culture incorporates a structure that emphasizes and supports individual responsibility and accountability at every level. Employees are encouraged to take responsibility for their own actions and to question authority figures if they have concerns. And individuals are held accountable for negative consequences when they occur and for reporting problems they observe. One manager we know created the idea of "Velcro" to convey the importance of responsibility to her direct reports. She tells them, if you know about a problem, it's yours until you address it. It's stuck to you like Velcro!

Most modern organizations are bureaucratic,[57] meaning that they have a hierarchy of authority, a division of labor or specialization, standardization of activities, and a stress on competence and efficiency. Bureaucracy provides many advantages, and large organizations require a certain amount of bureaucracy in order to function. The bureaucracy can also be used to create a structure that supports ethics, and you'll learn more about these in Chapter 6. For example, ethics and legal compliance offices in organizations signal to everyone that these are important issues worthy of resources, expertise, and staff. However, certain characteristics of bureau-cracy—such as specialization, division of labor, and hierarchy of authority—can present problems for the organization's ethical culture.

AUTHORITY, RESPONSIBILITY, AND ETHICAL CULTURE With bureaucracy comes the idea of legitimate authority. Look at any organizational chart. It will tell you who supervises whom—who has authority over whom. These authority figures serve important bureaucratic roles. They direct work, delegate responsibility, conduct performance appraisals, and make decisions about promotions and raises.[58]

But the idea of legitimate authority can present problems for the ethical culture. First, as you'll learn in Chapter 7, people tend to obey authority figures no matter what they are ordered to do.[59] This natural tendency toward unquestioning obedience can be a real threat to the organization's attempt to build individual responsibility into its ethical culture. In attempting to control employee behavior, many firms expect loyalty; and some demand unquestioning obedience from their employees. You might think that's a good idea—that authority figures have more experience and should know what's right, and employees should follow their orders. But even the military with its authoritarian structure expects soldiers to question unethical orders. Loyalty is generally a good thing, but you shouldn't be expected to be loyal or obedient to an unethical boss or organization. Unquestioning obedience to authority means that employees are not expected to think for themselves, to question bad orders, or to take responsibility for problems they observe. Therefore, a "do as you're told" and "don't ask any questions" culture that expects unquestioning obedience from employees can become involved in serious ethical problems. Research has found that the more a firm demands unquestioning obedience to authority, the higher the unethical conduct among employees, the lower their tendency to seek advice about ethical issues, and the lower the likelihood that employees would report ethical violations or deliver "bad news" to management.[60]

Some managers create a structure designed to help them avoid blame.[61] Their greatest fear is that when it comes time to blame someone, the finger will point their way, and their job will be at risk. By delegating responsibility to those at lower levels in the organization, the authority figure can often avoid personal blame for mistakes or ethical blunders. When it comes time to blame someone, the finger of blame frequently points down. Underlings, in particular, fear becoming the scapegoat for mistakes made at higher levels. CYA (cover your a—) memos proliferate as managers look to blame someone in a relatively powerless position who is considered to be expendable.

The structure of an organization can also fragment jobs and roles.[62] It isn't necessarily that individuals don't want to take responsibility. But jobs and roles get so divided up that they simply can't see the big picture.[63] We'll see in Chapter 7 how military bureaucrats passed the buck for responsibility during an investigation of the My Lai massacre in Vietnam. Those involved saw themselves only as cogs in a machine. No one felt responsible for the larger outcomes of their actions.

NEW ORGANIZATIONAL STRUCTURES Organizations today are developing structures designed to remove bureaucratic layers, push responsibility down, and empower individuals to make decisions at every organizational level. Take the example of office furniture manufacturer Herman Miller, Inc. (HMI), which is committed to the values of "open communication," "the dignity of each individual," and "quality relationships based on mutual trust and integrity." Kevin Knowles, a crew leader for six years, said, "What always surprises me is that everyone in the company . . . is free to talk with anyone in management about whatever they'd like to talk about." Managers at HMI cite workers' ability to go over their managers' heads as a major reason for the company's success. "There's no fear of retribution if you call someone three levels above." HMI touts a process its chairman calls "roving leadership" that allows anyone to be a leader on a particular issue.

Here is an example of how roving leadership was tested successfully. An employee with AIDS decided that he should let others know about his illness. A coworker took the roving leader responsibility and informed the human resources manager. Quickly, the entire plant was informed, and a physician from headquarters flew in with a training videotape and a question-and-answer session. According to the roving leader, what's important is that HMI's value system "allows us to act on our instincts and know the company will support us. Because the value of each individual is important to us, we were able to stop the manufacture of furniture for one day to take care of Peter."[64] Such a culture likely contributes to the success of a company that was named in 2002 by *Forbes* magazine as among the 400 best-performing large American corporations. *Business Ethics* magazine also ranked HMI in the top 10 among the "100 Best Corporate Citizens."

These recent changes in organizational structure have powerful implications for taking responsibility and for ethical decision making, and they increase the importance of having a strongly aligned ethical culture. When individuals are independently making decisions, with less direct supervision, they need a strongly aligned ethical culture to guide them. An important part of this picture is a structure that supports taking individual responsibility for ethical action.

STRUCTURES TO SUPPORT REPORTING OF PROBLEMS In today's organizations, fewer employees are directly supervised and organizations rely increasingly on employees to alert them to problems or report misconduct. Yet employees are often reluctant to do so. Therefore most large organizations have set up formal structures and systems for making suggestions and for reporting misconduct internally. These systems use intranets and phone systems to answer employees' concerns and take complaints and reports about observed wrongdoing.

As we all know, powerful norms exist against reporting on peers or superiors (internal whistle-blowing). The words we use to describe this behavior—*tattling*, *squealing*, *snitching*, *informing*, and *ratting*—all have negative connotations. In fact, there isn't a nice or even a neutral word to describe it. Can you come up with one? As suggested in Chapter 4, whistle-blowers frequently suffer retaliation, particularly when they report managerial or organizational misconduct.[65] They perceive that they are punished rather than rewarded for doing what they think is right. Therefore employee fear of reporting misconduct is widespread. If an organization claims that it's attempting to develop a strongly aligned ethical culture, retaliation against a whistle-blower is a powerful example of misalignment. Again, the workers view this "punishment" of the whistle-blower as an example of the organization's "real" ethical beliefs.

The ethical organization, however, should view an employee who takes responsibility for reporting a problem or misconduct as important to an effective control system and must find ways to make such activity safe and encouraged. Some organizations have even rewarded whistle-blowing. For example, in 1996, *Fortune* magazine published memos from the chairman of a Wall Street financial services firm. The following memo was addressed to senior managing directors, managing directors, and associate directors.

> We need your help. Please help us get a message out to every associate. It is essential that once again we stress that we welcome every suspicion or feeling that our co-workers might have about something they see or hear that is going on . . . that might not measure up to our standards of honesty and integrity. . . .
>
> We want people . . . to cry wolf. If the doubt is justified, the reporter will be handsomely rewarded. If the suspicion proves unfounded, the person who brought it to our attention will be thanked for their vigilance and told to keep it up.
>
> Forget the chain of command! That is not the way [the company] was built. If you think somebody is doing something off the wall or his/her decision making stinks, go around the person, and that includes me. . . .
>
> *Get these messages out loud and clear.*
>
> We have had some senior people who resented ‘‘end runs.’’ They quickly became associated with more conventional firms—you can draw your own conclusions about whether their career change worked out for the best.[66]

This leader sent a clear message that whistle-blowing was encouraged and rewarded. In the second memo, he shared information about a specific instance in which two administrative assistants detected that fictitious taxicab vouchers were being submitted by an employee. The employee was terminated, and the administrative assistants were provided a cash award.

Decision-Making Processes

The organization’s formal decision-making processes are another important part of the ethical culture. In an aligned ethical culture, leaders make ethical concerns a formal part of all decision making. This emphasis on ethics in decision making can be reinforced by regularly addressing ethical concerns in meetings and by making them an expected part of managers’ reports regarding new products or new business ventures. For example, managers may be asked to consider potential harm to multiple stakeholders when proposing a new product or process. As one example, environmental impact is now an expected and routine part of corporate decision making in many firms. Some organizations are also creating special high-level ‘‘ethics’’ committees charged with reviewing major organizational level decisions from an ethical perspective.[67] For example, one can imagine a responsible pharmaceutical company making such assessments about whether to launch a new drug that has serious side effects even after the FDA has approved it. Others have advocated the implementation of moral quality circles, groups set up to assess the morality of business decisions.[68]

OVERRELIANCE ON QUANTITATIVE ANALYSIS Decision-making processes can contribute to unethical behavior by relying exclusively on quantitative analysis and focusing only on financial outcomes. For example, in Chapter 3 we discussed the decision-making process that kept the Ford Pinto from being recalled. In that situation, exclusive reliance on a quantitative cost-benefit analysis to the exclusion of ethical considerations had disastrous consequences. In another example, Johns Manville, the former corporate giant and producer of asbestos, was brought down by decision-making processes that focused on the bottom line to the exclusion of worker health. More than 40 years ago, top management began to receive information implicating asbestos inhalation as a cause of severe lung disease in workers. Managers and medical staff suppressed the research and concealed the information from employees. During testimony, a lawyer reported on a confrontation with the corporate counsel about the failure to share X-ray results with employees. The lawyer reported asking, "You mean to tell me you would let them work until they dropped dead?" The Johns Manville lawyer replied, "Yes, we save a lot of money that way." It was apparently cheaper to pay workers' compensation claims than to develop safer working conditions. A New Jersey court found that the company had made a "conscious, cold-blooded business decision to take no protective or remedial action."[69] Obviously, organizational decision makers must rely on quantitative analysis in making business decisions. But their reliance on numbers, to the exclusion of ethical considerations, is problematic and contributes to an unethical culture. Discussions about whether the decision is the "right" thing to do must accompany discussions about the effect of a particular decision on the bottom line. Important decisions should be subjected to a discussion of ethical concerns, especially potential impacts on stakeholders.

BURDEN OF PROOF In 1986, Beech-Nut Nutrition Corporation, the second-largest U.S. baby food manufacturer, pleaded guilty to 215 felony counts and admitted to selling apple products that were a blend of synthetic ingredients. How did this happen? There were many causes, among them the company's financial difficulties, the belief that other companies were selling fake juice (industry norms), and the belief that the juice was perfectly safe.

A chief cause may also have been the decision-making processes that were used. When Jerome LiCari, director of research and development, recommended changing suppliers in 1981 (because he suspected adulteration), Operations Head John Lavery turned the traditional burden of proof around. Generally, baby food manufacturers would switch suppliers if the supplier couldn't demonstrate that the product was genuine. In this case, Lavery said that if LiCari wanted to go with a more expensive supplier, he would have to prove that the concentrate they were buying was adulterated (rather than genuine). Given the technology available at the time, this was difficult, and the supplier was retained.[70]

A similar decision-making criterion was used in the decision to launch the space shuttle *Challenger* despite engineers' concerns about O-ring failure in cold weather. In previous launches, engineers had been required to show evidence that the launch was safe (which would have been difficult, if not impossible). In the case of the *Challenger*, the burden of proof was changed. Engineers who balked at the impending launch decision were asked to prove that it was unsafe.

These examples suggest that it's relatively easy to alter decision-making processes to support whatever decision managers have already made. That's why it's extremely important that organizations design formal decision-making processes in good financial times and before a crisis occurs. Then, when trouble strikes, they can rely on these effective decision-making processes to guide them. The space shuttle *Challenger* might never have been launched if engineers had been required to prove that the launch would be safe, rather than unsafe. Managers must be particularly alert to changes in traditional decision-making criteria, especially in times of crisis.

INFORMAL CULTURAL SYSTEMS

In addition to the formal systems described previously, ethical culture is kept alive informally and symbolically through informal norms, heroes, rituals, myths, and stories. Employees experience the "real" organization through these informal systems, and information about them is carried through informal communication systems such as the grapevine and water cooler gatherings. In this way, people come to know what behaviors are "really" rewarded, how decisions are "really" made, and what organizational leaders "really" care about and expect. If messages from the formal and informal cultural systems differ, the ethical culture is out of alignment. It's important to note that employees are more likely to believe the messages carried by the informal system. Recent research has found that employees' perceptions of informal cultural systems influence their ethics-related behavior more than the formal systems do.[71] Therefore management of these informal systems is extremely important.

Role Models and Heroes

Much socialization about ethics is informally conducted by role models and mentors. Role models may be senior managers, immediate superiors, or just more experienced coworkers. Kent Druyvesteyn, former staff vice president of ethics, General Dynamics Corporation, made an important point about senior leaders as ethical role models. "People in leadership need to . . . set the tone by the example of their own conduct. We could have had all the workshops in the world. We could have even had Jesus and Moses and Mohammed and Buddha come and speak at our workshops. But, if after all of that, someone in a leadership position then behaved in a way which was contrary to the standards, that instance of misconduct by a person in a leadership position would teach more than all the experts in the world." By contrast, if senior leaders consistently model behavior of the highest integrity, employees learn that the formal messages about ethics are real.

Mentoring occurs at all levels in the organization and is an informal process of socialization whereby a more senior person takes a junior person under wing, providing information, career strategies, rules of the road, and so on. Individuals who are passing through organizational "boundaries," such as new hires, or those who are transferring from one part of the organization to another are most affected by these socialization influences.[72] In an ethical culture, the mentor emphasizes the importance of integrity and resistance to pressure to behave unethically. In an unethical culture, the mentor may indoctrinate the individual into accepted unethical practices, making it difficult for the individual not to go along.[73] The new accounting graduate who was told by his superior in a public accounting firm, "You're too honest to be an auditor," received a powerful message about ethics (or, actually, the lack thereof) in that organization. When looking for evidence of ethical culture alignment and misalignment, ask whether the organization's role models behave consistently with the organization's espoused values and codes.

In an ethical culture, heroes should personify the organization's values.[74] Heroes are symbolic figures who set standards of performance by modeling certain behaviors, and they can be the organization's formal leaders. Heroes can also be founders who are no longer even present in the organization. As we noted earlier, Thomas Jefferson is still very much alive at the University of Virginia. Stories about the values of these heroes continue to influence decision making. Thus, a hero who champions integrity and stands up for what is right may influence the behavior of many in the organization.

The organization's hero can also be someone who is not the president or chief executive officer. When asked to identify their organization's hero, Penn State students inevitably name football coach Joe Paterno. "Joepa" as he is affectionately known around campus, is not only the formal leader of the football team, but a cultural hero as well. His values, including education first for college athletes and winning by sticking to the rules of the game,[75] are considered by many to extend far beyond the football program to permeate Penn State's culture. On campus, Joepa and his wife are also known for their philanthropy. For example, they showed their leadership in the fund-raising campaign for a much-needed university library addition, now known as the Paterno Library addition. Some say that Penn State is the only university whose sports arena is named after a former president while the library addition is named after its football coach.

Savvy executives understand the role that heroes play in forming or changing a culture. One CEO of a financial services firm was very serious about identifying and rewarding people who lived his organization's values. He challenged his executives to bring him stories of employees who were doing the right things in the right way, who were models of the culture. He collected these stories and sent personal, handwritten thank-you notes to those model employees. While a phone call might have sufficed, employees were so thrilled with his written recognition and praise that they displayed his notes in their offices. Those framed notes sent a rather loud message to other employees about what kind of behavior was valued at high levels. Of course, they also helped spread word of the "heroes" and their deeds. In a similar example, Southwest Airlines publishes letters from customers in its monthly newsletter about employees who provided outstanding customer service. They publish the employees' pictures in the newsletter and post them on the wall in the headquarters.

Norms: "The Way We Do Things around Here"

Norms are standards of daily behavior that are accepted as appropriate by members of a group. They exert a powerful influence on individual behavior in organizations, and they can serve to support an ethical or unethical culture. For example, imagine an individual entering a computer software sales job who is told immediately by peers in the sales force that customers should always be dealt with honestly because long-term customer relations are so important to the firm. Here, the norm of honesty with customers supports ethical conduct and an ethical culture. On the other hand, consider the individual who begins a new job and is told by his or her colleagues that making the sale is all that counts, even if you have to lie to the customer about the capabilities of the software or delivery dates. This norm supports unethical conduct and contributes to an unethical culture. Either kind of norm (ethical or unethical) can become "the way we do things around here" in the organization.

Formal rules are often inconsistent with the informal norms that develop. For example, the salesperson described previously may have attended a mandatory ethics training session that taught rules of honesty in customer relationships. But if the message being sent on the job is to make the sale no matter what, the formal rule is overridden. Similarly, at a fast-food restaurant, new employees may be told about a rule against eating food without paying for it. However, once on the job, they may see coworkers eating while the supervisor looks the other way. These coworkers may rationalize their behavior because of their low pay or poor working conditions, or because the supervisor doesn't seem to care or eats food himself or herself. Encouraged to join in, the new employee is likely to do so, having learned the "real" rules. Thus, despite formal rules, regulations, codes, and credos, informal norms are frequently the most influential behavior guides and clues to the culture. When the formal messages are consistent with the informal norms, this contributes to an ethical culture in alignment. And when informal norms are inconsistent with formal rules and codes, the culture is clearly out of alignment.

Rituals

Rituals are an important part of an ethical culture. They tell people symbolically what the organization wants them to do and how it expects them to do it.[76] Rituals are a way of affirming and communicating culture in a very tangible way.[77] Organizations have meetings, parties, banquets, barbecues, and awards ceremonies that all convey messages about what's valued in the organization, Years ago, General Motors of Canada introduced a new vision and values by asking each manufacturing unit to create a small float representing one of the key values. These floats were part of a parade that kicked off a full day of culture-building ritual surrounding the theme "Customers for Life" and the motto "I Am GM." During the day, the CEO unveiled a large painting of the group vision and told a story about the company's future. To reinforce the "I Am GM" motto, employees were asked to see themselves as being responsible, at any moment, for the company, its products, and services. The day ended with the "GM Acceleration Song" performed by the 100-person Up With People singing and dancing group. The song had been revised to incorporate the new values created by the leadership team.[78]

Some companies have annual family picnics and "bring your child to work days" that encourage employees to value time with their families. Some have on-site child care so that having lunch with your preschool child in the company cafeteria becomes a valued daily ritual and symbol of the extent to which the organization values family. Others have awards ceremonies that convey the values of the organization, including awards for exemplary ethical conduct (see the discussion of Lockheed Martin's Chairman's Award in Chapter 6). It's important to ask what values are celebrated at these rituals and ceremonies because they can easily support unethical behavior, such as making the numbers no matter how. For example, sales meetings occur in most organizations. So is success with integrity being touted and celebrated at these meetings, or are only those who make their numbers celebrated at these events? Look for whether the rituals are consistent with the company's stated values, formal rules, and reward systems to help determine whether the culture is in alignment.

Myths and Stories

Another extremely important way organizational culture is communicated and kept alive is through the informal communication network. People tell stories to give meaning to their world and life.[79] Organizational myths and stories explain and give meaning to the organizational culture. They may be anecdotes about a sequence of events drawn from the organization's history. The story's characters are employees, perhaps company heroes, and the moral of the story expresses the organization's values.[80]

At IBM, a story that has been told and retold describes how a low-level employee denied Tom Watson, then IBM president, entry into a restricted area of the company because Watson was not wearing his IBM identification badge. Watson praised the employee, suggesting the importance of upholding company rules and applying them to everyone.

In *Paterno by the Book*,[81] Joe Paterno recounted a powerful story from the Penn State football program's history about a leader standing up for what he believes at a critical moment.

> The Miami game was a turning point for me. . . . Late that night, as we waited to board our charter plane, I strolled around the terminal replaying

the joys of our victory when I saw something. . . . I looked again and sure enough two of our best players were standing at a not-too-visible spot of the airport bar, each fingering a glass of beer. . . . "You're in trouble," I told them. "You know that you're never to be seen standing at a bar." Naturally they protested that they were having only one, that they were coming down after the great game, that nobody around here knew them. "Never means never," I said. Nobody on the squad could possibly have the faintest doubt about my rule: We don't want a Penn State football player to drink in a public place. . . . He throws a bad light on the entire team, putting every member under suspicion. Furthermore, . . . football players are public figures, watched and talked about. Also they're role models. I reminded the two guys of the one loophole in my rule: You can sit down with your folks privately and have a glass of wine. You can even have a couple of beers on a Saturday night—in private, with personal friends. That won't make you victims of hearsay. But if I see you standing at a public bar, you're in trouble.

So now these two kids had forced the decision on me. One of them had previously got himself in a minor jam with the police. It made a mention in the paper. "You're gone," I said. That meant for good. Off the team. To the other I said, "This is the first trouble I know about. You get one more chance, but you're suspended for the next two games." On Monday evening the captains . . . came to see me. The whole squad was meeting at that moment, they said, and had sent the captains to tell me that they felt the penalties were too harsh. They wanted me to take the first guy back and lift the suspension on the second—and they wanted to return to the meeting with my changed decision.

There are moments in the life of a manager when his ability to maintain control teeters on a hair. He can only manage with the consent of the managed, unless he's a prison warden. On the other hand, he can only manage by unambiguous assertion of authority. Those are opposites, in a sense. If the manager, who sometimes has to choose in a split second, chooses the wrong one of those two, his effectiveness is finished.

"Go back to your meeting and I'll be there myself in five minutes," I said. The sentence was harsh, I said to myself, but the rule they had broken was perfectly clear, defensible, and necessary. The morale and support of the entire squad hung in the air. If I backed off, the message was clear as a bell: I'm afraid of you guys. Ignore this rule. Ignore any rule that itches as much as this one does. And if there's a rule that itches less, try me on that, too.

Five minutes later, that squad room was a tableau of sullen, hard faces. I looked around, eye to eye, then talked. "A rule that protects us all was broken. The decision I made was the best one for all of us. I have no choice but to stand with it." Faces stayed frozen, waiting. I couldn't read them. "If anybody here can't live with it, go. Right now. If you stay,

> you do it my way, the right way, living by the rules. If you decide to stay and do it that way, we'll have a great football team. I'm going to walk out of here right now. A minute later I'm coming back in. Whoever's here, that's who we're going to play with."
>
> As I walked bravely out of there, imitating John Wayne the best I could, my knees were shaking. In the promised minute, I returned. Every frozen face that was there during my first visit was still there, although still frozen.[82]

This story represents a critical event in the history of Paterno's tenure as Penn State's football coach. It symbolizes the idea that rules are valued and enforced in a culture of high integrity and accountability. To the extent that the story has become a part of the organization's culture, it serves to reinforce the culture's emphasis on the value of rules and represents alignment between the informal and formal cultures. Similarly, in other ethical organizations, many of the stories that convey the importance of the ethical culture refer to rule violators being disciplined harshly or fired. Organization members remember these stories, and they serve to reinforce the value of doing the right thing. But note that stories can easily reinforce an unethical culture if they're about rule violators succeeding despite their unethical behavior.

Organizations can create stories to enhance the ethical culture. Medtronic, a medical technology firm, has embraced storytelling as a way to do just that. At their annual holiday party, the company invites several patients and their doctors to share their stories of how the company's products helped them. For example, one patient with a long history of Parkinson's disease told a story about how his life had become uncontrollable until his doctor suggested trying a new Medtronic device for deep-brain stimulation that gave him his life and his smile back. The CEO noted how these stories help reinforce the company's mission of serving others.[83]

The best stories are simple ones based on real people and experiences that tap into the company's values and employees' pride. Leaders interested in creating an ethical culture should be on the lookout for examples of exemplary ethical behavior to celebrate and find ways to communicate those stories on corporate websites and in newsletters and award ceremonies. If you want to learn about an organization's culture, ask an employee to tell you a story that exemplifies the culture. Then just sit back and listen.

Language

Cultures develop and use language to communicate values to employees. The old joke that *business ethics* is an oxymoron suggests the conventional wisdom that the language of ethics is out of place in the business context. But in a strong ethical culture, ethics becomes a natural part of the daily conversation in the organization. Employees feel comfortable talking ethics with each other and with their managers. Organizational values are invoked in decision making. And managers routinely talk ethics with their direct reports. It could be as simple as asking whether the decision is the right one, in an ethical as well as a business sense. Is this the "proper" thing to do for customers, suppliers, the community? What is the potential harm to all stakeholders?

The use of ethical language is likely related to decision-making behavior. In one study, individuals who discussed their decision-making using ethical language were more likely to have actually made an ethical decision.[84] These people talked about ethics, morals, honesty, integrity, values, and good character. Those who had made the unethical decision were more likely to recount the decision in the more traditional business language of costs and benefits.

But, without cultural support for the use of ethical language, business managers are reluctant to describe their actions in ethical terms even when they are acting for ethical reasons. This reluctance, referred to as moral muteness, can be attributed to the value placed on "efficient" decision making such that ethics talk can be thought of as a distraction as well as to the desire to appear powerful and effective. Ethics talk can also appear overly idealistic and utopian and inconsistent with the expectation that managers can solve their own problems.[85]

Interestingly, getting managers to talk with their employees about ethics has been likened to parents discussing sex with their children. Although parents agree that sex education is a good thing, they often find it difficult to broach the subject with their children. Similarly, managers may find it difficult to begin a conversation about ethics with other managers or with their subordinates. If these topics are typically not discussed, the manager who brings it up may feel like a goody-goody or a spoilsport.[86] But managers who become comfortable talking about ethics will be role models of important behaviors for their subordinates.

Kent Druyvesteyn, one of the first corporate ethics officers, told us an anecdote about the early development of ethics training at General Dynamics.

> Early on, at General Dynamics, we declared that our ethics training workshops were to be small and interactive, and that they were to be led by managers. And, we heard some complaints from managers who said, "We don't know anything about this." They thought we were going to have them teach Aristotle and Kant, but that's not what we were trying to do. We also had people in training say, "We can't have people in management do this. There won't be any quality control."
>
> At that point I said, "Let's consider what it is we're trying to do here. What we are trying to do is raise awareness, to increase knowledge of company standards and stimulate commitment to those standards. That's the most important thing." Here's an analogy I'd like you to consider. You have some small children and you decide that you want to teach them about sex. There are a number of ways that you could do this. You could hire an expert—someone who knows all about sex, who knows the right words to use, who knows all the latest terminology, who is pedagogically very skilled. You could hire this person to come into your home, sit down in your living room with

> your children, and teach them about sex. I mean, isn't that good management technique—to delegate it to someone? On the other hand, you could do it yourself. You may have limitations. You don't know everything. You might be embarrassed or tongue-tied. In the end though, who do you think would be more effective? To have the expert do it or for you to do it yourself? I have never had a person say that the expert would be more effective.

Top managers can also make ethics an acceptable topic of conversation by sending a message that it's not only okay, but expected, to talk about one's ethical concerns. They can do this by leading discussions about ethics, discussing the ethics code and its application in a video that is shown to employees, and otherwise openly discussing ethical problems with managers and employees. Senior managers can also build "ethical talk" into the fabric of the organization by requiring routine discussion of ethical issues when important decisions are made.[87]

In unethical cultures, ethical language is mostly absent or unethical language may be used (as when employees talk about "screwing" customers). But, as we noted in our discussion of euphemistic language in Chapter 3, organizational language can also be used to avoid the ethical implications of actions. This can happen either by design or inadvertently. For example, in Nazi Germany, the code names for killing and genocide were *final solution*, *evacuation*, and *special treatment*. This use of euphemisms allowed people to avoid confronting the true meaning of their behavior.[88] Similarly, companies use euphemisms to avoid the pain of decisions to lay off employees. *Downsizing*, *rightsizing*, *restructuring*, and *targeted outplacement* are just a few terms we've encountered. It may be easier to impose a targeted outplacement than a layoff, but are the ethical considerations as obvious for targeted outplacement as they are for layoffs? Recall from Chapter 3 that using ethical language increases individuals' ethical awareness. So, it's essential that ethical language become a part of the organization's ethical culture.

ORGANIZATIONAL CLIMATES: FAIRNESS, BENEVOLENCE, SELF-INTEREST, PRINCIPLES

Beyond these specific systems, we have learned that employees' perceptions of broad climates within the organization are extremely fundamental and influential. These climates tend to cross cultural systems. For example, when employees think about ethical culture, they tend to think first about the *climate for fairness* in the organization. This refers to whether they believe employees are treated fairly every day, in terms of outcomes (pay, promotions, termination), processes (are processes for making these important decisions about employees fair, nonarbitrary, and unbiased?) and interactions (are employees treated every day with dignity and respect?). It makes sense that it would be hard to talk seriously with employees about their ethical behavior if they believe that the organization isn't behaving fairly toward them. Research has demonstrated that these very general perceptions of fair treatment can be as powerful an influence on employees' ethical conduct as just about any of the formal or informal cultural systems just described. Employees appear to reciprocate the organization's fair treatment with their own ethical behavior.[89]

Consistent with these findings about fairness climate, employees' behavior is also influenced by their general perceptions related to whether the organization is characterized by a *benevolence climate*—meaning the organization is one that "cares" about multiple stakeholders, including employees, customers, and the broader community and public. So employees are much more likely to demonstrate ethical behavior in an organization they see as one that cares.

By contrast, employees in some organizations see their firm as promoting a very instrumental *self-interest climate*, in which people protect their own interests above all and everyone is essentially out for him or herself. Little attention is given to the social consequences of one's actions. You can imagine that an organization that focuses exclusively on financial outcomes would create such a climate; and, logically, employee unethical behavior is higher in such organizations.

Finally, in a *rule-based climate*, employees perceive that the organization is one where employees follow both laws and the organization's rules when making decisions. One can imagine that organizations in highly regulated industries that take their codes, rules, and policies quite seriously would be rated highly on this climate dimension, which has the largest impact on reducing unethical behavior. This may be because this climate taps into perceptions of ethical culture alignment. An organization in which employees follow the rules is more likely to be one whose formal (codes, policies) and informal systems (norms of daily behavior) are aligned.[90]

DEVELOPING AND CHANGING THE ETHICAL CULTURE

We can conclude from this cultural analysis that ethics at work is greatly influenced by the organization's ethical culture. Both formal and informal systems and processes channel and reinforce certain kinds of behavior. Each of the systems on its own can support either ethical or unethical conduct. In addition, these multiple systems can work together or at cross purposes, thus leading to an organization that is aligned to support ethical (or unethical) conduct or one that is misaligned and creating mixed messages. Imagine an organization with an ethics code that forbids employees from accepting gifts of any kind, but a senior executive is known to have accepted box seats at the ball game from a client. This "we say one thing, but do another" approach leads to widespread cynicism. The code loses all credibility as workers pay more attention to what's done than to what's said. On the other hand, when the organization disciplines that executive, this action visibly reinforces the code and supports the firm's ethical stance with all workers.

How an Ethical Culture Can Become an Unethical Culture

The story of Arthur Andersen, the now defunct auditing company, provides a sad example. It demonstrates how a solidly ethical culture can be transformed into an unethical culture and lead to the demise of an 88-year-old firm.

Founder Arthur Andersen created the company when he was in his twenties. As chief executive, the messages he conveyed about ethical conduct were strong, consistent, and clear. Andersen's mantra, "Think straight—talk straight," guided employee behavior in an organization where "integrity mattered more than fees." Stories about the founder's ethics quickly became part of the firm's mythology and lore. For example, at the age of 28, Andersen confronted a railway executive who insisted that the accounting firm approve his company's books. Andersen said, "There's not enough money in the city of Chicago to induce me to change that report."[91] Andersen lost the railway company's business, but when that company later went bankrupt, Arthur Andersen became known as an organization people could trust to be honest and to stand up for what was right. In the 1930s, Arthur Andersen emphasized accountants' special responsibility to the public. The founder died in 1974; but he was followed by leaders with similar beliefs, and the strong ethical culture continued for decades. The management style Andersen initiated was a centralized, top-down approach that produced employees who were systematically trained in the "Andersen Way." Customers around the world knew they could expect quality work and integrity from Andersen employees, who were all carefully socialized to speak the same language and to share "Android" values. Through the 1980s, people were proud to say they worked for Arthur Andersen, which would provide a good career within a respected company.

In the mid-1990s, Arthur Andersen still provided formal ethical standards and ethics training. In 1995 it even established a consulting group, led by Barbara Toffler, to help other businesses manage their ethics. But Toffler quickly became concerned about the ethics of her own employer, which she chronicled in her book *Final Accounting: Ambition, Greed, and the Fall of Arthur Andersen*.[92] Toffler attributes much of the change from ethical culture to unethical culture to the fact that the firm's profits increasingly came from management consulting rather than auditing. Auditing and consulting are very different undertakings, and the cultural standards that worked so well in auditing were inconsistent with the needs of the consulting business. Under the new business realities, rather than standing for principles of honesty and integrity, consultants were encouraged to keep clients happy and to concentrate on getting return business because only revenues mattered. They were even expected to pad prices or create work to increase profits.

Even the training that had always been so important to Andersen's culture wasn't immune from change. Traditionally, new employees (recent college graduates) had been required to attend a three-day enculturation session, but now new consultants (often hired with experience outside the firm) were told not to forgo lucrative client work to attend the training. So Toffler and lots of other consultants never got the cultural training.

By the time Toffler arrived at Andersen, no one referred to the ethical standards, although they still existed in a big maroon binder. Toffler says, "When I brought up the subject of internal ethics, I was looked at as if I had teleported in from another world." So Andersen still had ethics policies, and they still talked about ethics in formal documents, but the business had changed dramatically and the approach to ethics management had not kept pace.[93]

Andersen was convicted of obstruction of justice for shredding documents associated with its role as Enron's auditing firm and quickly went out of business. The Supreme Court reversed the decision in 2005, ruling that the jury had not been advised that conviction in a white-collar crime case requires evidence of criminal intent. However, the Supreme Court reversal did not clear Andersen of wrongdoing. In fact, prosecutors provided evidence of criminal intent.[94] In the end, even if someone had wanted to, there was no firm left to resurrect.

Was Andersen's transformation from ethical culture to unethical culture a conscious process? Did anyone ever say, "Now we're going to create an unethical culture at Arthur Andersen"? We doubt that. But leaders' lack of attention to the ethical culture as the organization was undergoing a significant business transformation practically guaranteed that the messages sent by the informal culture (revenues, revenues, revenues) would begin to contradict those sent by the formal culture (ethics standards) and lead to a culture that was seriously out of alignment as well as one that increasingly sent messages suggesting only the bottom line mattered.

Becoming a More Ethical Culture

What should an organization do if it wants to transform itself into a more ethical culture? Given our multisystem perspective on ethical culture, changing organizational ethics in a positive direction involves simultaneously developing or changing multiple aspects of the organization's ethical culture. If the effort is to be successful, this ethical culture development or change should involve the alignment of all relevant formal and informal organizational systems to focus on ethics. Obviously, this requires a major commitment from the most senior levels in the organization. Culture change attempted at lower levels is likely to be ineffective unless it is fully supported and modeled by senior management. Unfortunately, some companies (e.g., Arthur Andersen) go out of business before they have this opportunity.

Changing organizational culture is more difficult than developing it. In a new organization, workers are quite open to learning and accepting the culture of their new organizational home, especially if it fits with their own values. However, anthropologists and organizational scientists agree that changing an existing culture is an extremely difficult process.[95] This view is consistent with an idea basic to all organizational change and development efforts—that changing individual and group behavior is both difficult and time-consuming. The human tendency to want to conserve the existing culture is referred to as cultural persistence, or inertia. Culture has an addictive quality, perhaps because culture members are aware that culture components cannot be altered without affecting other cherished values and institutions.[96] Also, an unethical culture tends to feed on itself. Why would successful (but unethical) managers want to change? They wouldn't. They would tend to hire people like themselves and perpetuate the culture that exists.

Most often, pressure for culture change comes from outside—from stockholders, the government, regulators, and other outside stakeholders. The public's general mistrust of business executives[97] and the threat of increased government regulation may encourage leaders to look more closely at their ethical cultures. In addition, organizations whose members have been "caught" engaging in unethical behavior, or those faced with costly lawsuits, are prime candidates for such ethical culture change attempts. Finally, the government's sentencing guidelines for corporate crime turned the attention of many organizations to an evaluation of their ethical cultures during the 1990s.

The influence of bad publicity and costly lawsuits extends beyond the targeted organization. Organizations scan the environment for information that is relevant to their concerns. When one organization in an industry is called on the carpet for a legal or ethical violation, other organizations in the industry take notice and act. Arthur Andersen's indictment for document shredding in the Enron case, as well as its mishandling of multiple audits over a number of years, sullied the reputation of the entire auditing industry. Thus any organization that senses increased vulnerability to external pressure is also more likely to consider the need for attention to the management of its ethical culture.

The pressure to change organizational ethics can also come from within, but it is not likely to occur unless the CEO decides that change is required. Often a new CEO is brought in to lead the charge when serious culture change is needed, because only the CEO has the clout and resources to make such significant changes. John A. Swainson was brought in after a nearly 30-year career at staid and solid IBM to lead Computer Associates (CA) in 2004. CA provides IT management software to large users and generates over $4 billion in annual revenue. According to Swainson, the "tipping point" for the company occurred when its board instituted a new stock option plan for senior executives in the 1990s. Executives had to hit stock price numbers and keep them up over a period of time if they were to get payouts of more than $1 billion (you read that right—it's a *b*). These senior managers started breaching accounting rules in order to adjust revenues, and they started down a slippery slope of accounting malfeasance. Over time, they became desperate to cover themselves and engaged in ever more illegal acts. To make matters even worse, when the government started investigating, the senior managers engaged in a cover-up. The government's investigation resulted in a huge fine and the firing of more than 15 executives including the CEO, who is now serving a 12-year prison sentence.

Swainson was brought in under a deferred prosecution agreement (DPA) with the government. With a DPA, the government sets aside prosecution because prosecuting the company would likely put it out of business and its employees (most of them innocent) out of a job. The company accepts a full-time government overseer on the premises and agrees to all sorts of actions aimed at righting the ship. Perhaps the most important requirement was to institute a new ethical "tone at the top." As part of that effort, Swainson held hundreds of town hall meetings and began an internal blog where he communicates with employees about what he's thinking or what they're thinking. He also answers "ask John" questions in a question-and-answer forum where employees write him directly and he answers. He hired a highly experienced senior-level legal compliance officer with access to the senior executive team, set up an ethics training program and a hotline, and improved investigation capabilities. In regard to the basic business, Swainson visited major customers and learned that the sales force needed to be reorganized and their performance management system changed to support building relationships rather than just making transactions. Also, employees had to be brought into "a single, cohesive, ethics-based culture." Because CA had grown so rapidly through acquisition, employees identified more with their previous companies than with CA. Employees are now surveyed annually. Morale and trust in management are improving, and just about everyone says they understand the importance of the CA's core values and ethical behavior. At the end of his talk to students, Swainson said, "Today we are back on track. Employees are proud of where they work. Customers want to do business with us. . . . Regaining our reputation and our credibility has been a long and arduous process. We can't and won't go back."[98]

A CULTURAL APPROACH TO CHANGING ORGANIZATIONAL ETHICS

Hopefully, we have made it very clear that changing the ethical culture requires simultaneous and systematic attention to all cultural systems, with the goal of making changes aimed at aligning all of these systems to support ethical conduct.

This is a huge job, so many companies employ consultants to help them design their ethics initiatives. That may be appropriate, especially if the firm doesn't have the expertise in-house. But for these initiatives to go beyond superficial cookie-cutter prescriptions, they need to be based on an in-depth analysis of the company and its current ethical culture. Many consultants provide this kind of service. Unfortunately, what firms sometimes receive is an off-the-shelf report with standard prescriptions that could apply to any firm in what has sometimes been referred to as "spray and pray." "Consultants sprayed some ethics over [big companies] and prayed that something happened."[99] These spray-and-pray programs can breed cynicism because they raise employees' awareness of ethics problems while simultaneously suggesting, in many cases, how little the organization is doing about them. Employees are likely to say, "We had our ethics-for-a-day training program. Now we're back to doing things the way we've always done them."

Companies that are looking for advice from consultants need a unique plan, one designed to fit their firm's needs and culture. Obviously, a unique plan takes more resources to develop than the off-the-shelf variety. It requires the consultants to get to know the firm, its people, and its operations. They must interview and survey employees, managers, and executives to learn about the current state of affairs. Such knowledge will allow the consultants to propose a culture shift that addresses the firm's unique needs.

Audit of the Ethical Culture

The only way to determine if the culture is aligned to support ethical behavior is to conduct regular, comprehensive audits of all relevant cultural systems, both formal and informal. If the ethical culture audit determines that aspects of the current culture are not aligned to support ethical behavior, and the goal is to produce consistent ethical conduct, then the culture must change.

Any attempt to develop or change organizational ethics can benefit from an organizational change approach that includes a system-wide, long-term view. In addition, the approach should be based on the assumption that human beings are essentially good and capable of development and change.

A Cultural Systems View

The cultural approach relies on the idea that to be successful, any attempt to develop or change the organization's ethics must take the entire cultural system into account.[100] The change effort must target multiple formal and informal organizational subsystems. All of these subsystems must work together to create clear, consistent messages about what is and is not appropriate behavior in the organization. If subsystems conflict, confusion and mixed messages will result. Thus, the entire range of formal and informal subsystems must be analyzed and targeted for development and change.

This complex, multisystem approach to managing organizational ethics argues against any short-term, quick-fix solutions that target only one system. The idea that an organization could solve its ethics problem simply by establishing a code of ethics or by hiring a consultant to deliver a one-hour ethics training program becomes ludicrous when the complexity of the ethics culture is understood. The management of ethical conduct must be complex because it is influenced by multiple systems, each of them complex in itself. Thus the complexity of the solution must match the complexity of the problem. A solution that isn't sufficiently complex will miss important information, make incomplete diagnoses, and produce overly simple and shortsighted solutions. The organization that creates a code of ethics in response to external pressure and files it away without making changes in other systems such as the reward system and decision-making processes is more likely making a negative statement about organizational ethics rather than a positive one. The informal message is that management is hypocritical and that the code of ethics serves no useful purpose beyond creating a facade. The same can be said of lofty values statements. For example, many of these statements talk about valuing diversity. But what happens when people look around the organization and see few minority managers? Executives need to understand that when they put a values statement in writing, employees expect a commitment to follow through. The bottom line about systems thinking is understanding that if an organization decides to get into the "ethics business" with a values statement, code, or training program, employees expect follow-through in other parts of the organization. A failure to follow through will be interpreted as hypocrisy.

A Long-Term View

The development of organizational culture takes place over a number of years; effective culture change may take even longer, as much as 6 to 15 years.[101] It requires alterations in both formal and informal organizational systems that take time to implement and take hold. Resistances must be overcome. New rules and values must be reinforced via training programs, rites and rituals, and reward systems. Although not all organizational change efforts take this long, deep interventions in the organizational culture should be considered long-term projects.

Assumptions about People

Mainstream economics rests on the assumption that human beings are driven by self-interest and opportunism and are likely to shirk responsibility.[102] Acceptance of this assumption logically leads to change efforts focused almost exclusively on behavioral control.

We believe, however, that human beings are essentially good and open to growth and change. Most employees prefer being associated with a fair organization that supports ethical behavior and disciplines unethical behavior. Given this type of environment, most individuals can be expected to choose ethical behavior. Individuals who engage in unethical behavior should not simply be labeled "bad" people. They are often responding to external pressures or behaving according to organizationally sanctioned definitions of what's appropriate. Although unethical behaviors must be disciplined, the organization should also treat unethical behavior as a signal to investigate itself and the cultural context in which the behavior occurred. Through culture, the organization can change definitions of what is appropriate and inappropriate and can relieve pressures to behave unethically.

Diagnosis: The Ethical Culture Audit

Formal attempts to develop or change organizational ethics should begin with diagnosis. Diagnosing culture calls for time-consuming techniques, such as auditing the content of decision making, coding the content of organizational stories and anecdotes, and holding open-ended interviews with employees at all levels.[103] It also requires systematic analysis of formal organizational systems, such as the structure and criteria for rewards and promotion.

The framework presented in this chapter can provide guidance for an audit of the organization's ethical culture.[104] The audit should include probes into the formal and informal organizational systems that are maintaining the ethics culture in its current

Table 5.1 Selected Questions for Auditing the Formal System

1. Do organizational leaders send a clear ethics message? Is ethics part of their ''leadership'' agenda?
2. Does the organization incorporate ethics into its selection procedures? Is integrity emphasized in orienting new employees and training existing ones?
3. Does a formal code of ethics and/or values exist? Is it distributed? How widely? Is it used? Is it reinforced in other formal systems, such as performance management and decision-making systems?
4. Does the performance management system support ethical conduct? Are only people of integrity promoted? Are ethical means as well as ends important in performance management systems?
5. Is misconduct disciplined swiftly and justly in the organization, no matter what the organizational level?
6. Are workers at all levels encouraged to take responsibility for the consequences of their behavior? To question authority when they are asked to do something that they consider to be wrong? How?
7. Are employees encouraged to report problems, and are formal channels available for them to make their concerns known confidentially?
8. Are ethical concerns incorporated into formal decision-making processes? How? Or, are only financial concerns taken into account?
9. Are managers oriented to the values of the organization in orientation programs? Are they trained in ethical decision making?
10. Are ethical considerations a routine part of planning and policy meetings and new venture reports? Does a formal committee exist high in the organization for considering ethical issues?

state. First, formal organizational systems can be analyzed in a number of ways. Through surveys, interviews, observation at meetings, orientation and training sessions, and analysis of organizational documents, perceptions of how formal organizational systems either encourage or discourage ethical behavior can be identified. The kinds of questions that can be asked are listed in Table 5.1.

Auditing informal systems is equally important. In small organizations that don't have formal policies and decision processes, the informal systems are often more important than the formal ones. The culture can be analyzed to identify the organization's heroes as well as the daily behaviors that are reinforced through stories, rituals, and language. This can be accomplished through open-ended interviews, observation of organizational rituals, and analysis of the organization's stories. Some questions that might be asked in an audit of the informal system are offered in Table 5.2. The questions in Tables 5.1 and 5.2 are designed to suggest the general direction of an ethical culture audit. Specific questions that arise out of the particular system being analyzed must be developed to tap that system's unique problems and needs. Canned approaches to discovering culture that assume they can identify the relevant dimensions in advance are bound to fail.[105] In addition, the multisystem nature of organizational culture suggests that responses must be compared within and across systems to

Table 5.2 Selected Questions for Auditing the Informal System

1. Identify the organization's role models and heroes. What values do they represent? What advice do mentors give?
2. What informal socialization processes exist, and what norms for ethical/unethical behavior do they promote? Are these different for different organizational subgroups?
3. What are some important organizational rituals? How do they encourage or discourage ethical behavior? Who gets the awards—people of integrity who are successful, or individuals who use unethical methods to attain success?
4. What are the messages sent by organizational stories and myths? Do they reveal individuals who stand up for what's right despite pressure, or is conformity the valued characteristic? Do people get fired or promoted in these stories?
5. Does acceptable language exist for discussing ethical concerns? Is ''ethics talk'' part of the daily conversation?

answer the key question of whether formal and informal systems are aligned within themselves and with each other.

As you may have determined by now, a full-fledged ethical culture audit is a complex process that the average manager is probably not prepared to conduct. Many large organizations will have human resources staff with the required expertise, and conducting such an audit within the firm can send a powerful message that the firm cares about ethics (assuming that the audit is followed up with action). But other organizations that do not have the expertise in-house will need assistance with these diagnoses and intervention efforts. And in some firms, employees may be more willing to discuss sensitive ethical issues with a trusted outsider.

Understanding the cultural issues addressed in this chapter can help any manager become more sensitive to the complex nature of organizational ethics and the importance of cultural alignment. In fact, with a few changes, the questions in Tables 5.1 and 5.2 could be used to assess the ethics of an organization you're considering joining. You can ask your prospective manager or peers relevant questions and see how they respond. If they welcome such questions, and respond to them easily, that's a good sign that people in the organization are comfortable talking about ethical issues.

Ethical Culture Change Intervention

Once the audit is complete, the data should be discussed with employees, who can then be enlisted in developing a culture change intervention plan. The plan will be guided by the diagnosis and the cultural, multisystem framework shown earlier in Figure 5.1. Complementary changes in both the formal and informal organizational systems should be a part of any recommended change effort.

Though difficult, changing formal systems is a more straightforward process than changing informal systems. Gaps and problems identified in the diagnosis can be addressed in a number of ways. Structure can be altered to encourage individuals to take responsibility for their behavior and to discourage unquestioning deference to authority. Codes of ethics can be designed participatively, distributed, and enforced. Performance management systems can be designed with an emphasis on *what* people do as well as on *how* they do it. Reporting misconduct can be encouraged by providing formal communication channels and confidentiality.[106] Orientation programs can be designed to incorporate the organization's values, and training programs can be set up to prepare individuals to handle the ethical dilemmas they are most likely to face in their work. Integrity can be emphasized in selection and promotion decisions. Decision-making processes can incorporate attention to ethical issues by devoting time at meetings and space in reports.

It's more difficult to change the informal systems, particularly those that have been found to maintain unethical behavior in the organization. However, these changes must be undertaken if the total change effort is to be effective. These changes require attention to the "art" rather than the science of management and are consistent with ideas about the importance of "symbolic management." With symbolic management, organizational leaders and managers are encouraged to create rituals, symbols, and stories that will influence those they manage.[107]

The organization may have to be "remythologized" by reviving myths and stories of its founding and resurrecting related tales that can guide organizational behavior in the desired direction.[108] For example, Alexander Graham Bell's comment, "Come here, Watson, I need your help," set up Bell's concept of service that was so important to AT&T's success for many years. However, myths must also be frequently evaluated for their continuing usefulness. New ones may have to be found or developed to fit the organization's current needs and goals. Remythologizing should be done carefully and infrequently. Employees generally know what's "really going on" in the organization. If the revived myth doesn't fit with organizational reality, it will only increase their cynicism. Also, myths can't be changed frequently. Their strength and value in the culture come from their stability across time.

ETHICAL CULTURE CHANGE EVALUATION As with any organizational change and development effort, results should be evaluated over an extended period of time. Evaluation, like diagnosis and intervention, should be guided by the multisystem framework. Surveys and interviews can be repeated regularly to determine if norms have changed and to pinpoint potential problem areas. Documents can be analyzed to determine if ethical issues are being consistently considered. Other outcomes, such as number of lawsuits or reports of unethical behavior, can also be tracked. However, interpretation may need to go beyond simply analyzing the numbers. Increased reporting to a hotline, for example, may mean only that ethical sensitivity has been raised and can be viewed as a positive outcome rather than a negative one. This part of culture building is probably the most neglected. Most organizations are unwilling to make the investment in evaluation, and therefore they really can't calculate the effectiveness of their efforts.

THE ETHICS OF MANAGING ORGANIZATIONAL ETHICS

An effort aimed at changing organizational ethics requires us to face a particularly knotty ethical dilemma: whose values or ethics are to prevail? We believe that a change effort that involves employees is not manipulative or coercive and is most consistent with a concern for the ethics of the change effort itself. Employees should participate in the problem diagnosis and planning process. They should be aware of what's happening and should take part in identifying problems and recommending solutions.

CONCLUSION

This chapter has proposed a cultural framework for thinking about ethical and unethical behavior in the organizational context. Although individual character traits may predispose a person to ethical or unethical behavior (as we learned in Chapter 3), the cultural context in the organization also has a powerful influence on the behavior of most employees. An organization that wishes to develop or change its ethical culture must attend to the complex interplay of formal and informal systems that can support either ethical or unethical behavior. Quick-fix solutions are not likely to succeed. A broad, multisystem approach to developing and changing organizational ethics was outlined to guide organizations in diagnosing and, if necessary, changing their ethical culture.

Although most managers are not prepared to conduct a broad culture change effort themselves, we hope this chapter has helped them understand that organizational ethics is a complex cultural phenomenon. With this knowledge, the manager can begin to assess the ethical culture of his or her organization and will know what questions to ask the consultant who is brought in to help with a culture change effort. Individuals can also use these questions to help them assess their own organization and their fit within it.

DISCUSSION QUESTIONS

For the following questions, focus on an organization you are familiar with. If you do not have significant organizational experience, discuss the questions with someone who is currently in a managerial role.

1. Does your organization address ethical issues in a formal, systematic way? How has the organization customized an ethical culture to match its unique needs?
2. To the best of your ability, use Figure 5.1 and the questions in Tables 5.1 and 5.2 to conduct an ethics audit of the formal and informal systems in your organization.
3. Having conducted the ethics audit, identify the formal and informal systems that are in need of attention. Where is the culture out of alignment (if it is)? Design a

change program to address weaknesses and to align formal and informal systems into a strong ethical culture.

4. How would you change the culture audit questions if you were planning to use them to conduct an ethics culture audit of a firm you were considering joining?

CASE

CULTURE CHANGE AT TEXACO

In 1999, Texaco settled a lawsuit that charged the firm with discriminating against African American employees. Texaco paid $175 million, the largest settlement of this kind ever. The stock had fallen $3 per share after damning audiotapes became available to the public. Peter Bijur, then CEO, decided to stop fighting the lawsuit and settle. Minority employees received $140 million in damages and back pay, and $35 million was used to establish an independent task force to evaluate the firm's diversity efforts for the next five years.

Apparently, there had been very real problems throughout the Texaco organization. These included blatant racist language and behavior on the part of Texaco employees and managers, documented lower pay for minority employees (in some cases lower than the minimum for the job category), and comments such as the following overheard from a white manager: "I never thought I'd live to see the day when a black woman had an office at Texaco." Unfortunately for Texaco, and fortunately for minority employees, a Texaco official taped meetings about the lawsuit in which executives used racial epithets and discussed disposing of incriminating documents. The tapes were made available to the *New York Times* and, through it, to the public. To make matters worse for Texaco, a former senior financial analyst, Bari-Ellen Roberts, wrote a book detailing the humiliating experiences faced by many minority employees, including herself. One time, a white official referred to Roberts publicly as a "little colored girl." She also detailed how the organization regularly ignored grievance claims from minorities.

Bijur's unusual solution to the problem was to launch a complete culture change effort. During 1998 and early 1999, the company was in difficult financial straits due to low crude oil and natural gas prices. Revenues and earnings dropped precipitously, and the number of employees was reduced from 27,000 to 18,500. At a time like that, another CEO might have put diversity issues aside in favor of a focus on the bottom line. But Bijur took advantage of the opportunity to "make us a better company." First, as leader, he made it clear that he would simply not tolerate disrespect and that those who didn't go along with the culture change would be dismissed. He even went outside the company, speaking to groups such as the Urban League, saying that "a real commitment must be more than a diversity checklist. It must be integrated into a company's business plan. It must guide our strategies for hiring, developing, promoting and retaining a diverse workforce. And it must extend beyond our corporate boundaries—not only to our customers and suppliers, but also to the communities in which we work and live."[109] Bijur hired African Americans in key positions such as director of global business development, general counsel, and head of diversity for the company. All of these individuals said that they agreed to join the company because they were convinced of Bijur's personal commitment to real culture change. New recruiting systems were set up to increase the pool of minority candidates for every position. Women and minorities were included on all human resources committees. Search firms with success in minority hiring were brought in to help in the effort. For a longer-term solution, the company set up scholarship and internship programs to interest minorities in areas of study of importance to the firm. Next, Bijur set specific diversity goals and timetables and linked managers' career success and bonus compensation to their implementation of the initiatives. For all supervisors, he instituted 360-degree feedback that included performance on diversity issues in evaluation criteria. He also established formal mentoring and leadership development programs to ensure that the company was preparing minorities for leadership positions. All employees were required to attend diversity training, and such training is now being incorporated into more general management training. And multiple methods were set up for filing grievances. These included hotlines, an alternative dispute resolution process with independent arbitration and mediation, and a confidential outside ombudsman. Finally, the company set up a Minority and Women Business Development Program to increase the number of minority wholesalers it works with. This entire change effort is overseen by the independent task force set up as part of the settlement. The task force meets frequently with employee groups and monitors the firm's progress.

How is Texaco doing? Angela Vallot, director of corporate diversity initiatives, says, "You're not going to change the way people think, but you can change the way people behave." Evidence suggests that changes in behavior are real. The new general counsel has few discrimination lawsuits to work on. In 1999, a total of 44 percent of new hires and 22 percent of promotions went to minorities. The company spent over $1 billion with minority and women-owned vendors in 1997 and 1998 and exceeded a goal set in 1996. Texaco even applied for inclusion in *Fortune* magazine's 1999 list of America's 50 Best Companies for minorities. It didn't make the list, but the application suggests that company officials were feeling pretty good about their progress. Weldon Latham, diversity expert at a Washington, D.C., law firm, says, "They are absolutely a model for how to approach one of the biggest problems facing this country."[110] Reports of the monitoring task force were posted on Texaco's website. In a report, released in July 2000, the task force acknowledged the commitment of Texaco's leadership. "Through the values espoused by its leadership and its efforts to improve its employment practices, the Company continues to communicate effectively the message that it will not tolerate discrimination, harassment, or retaliation in its workplace and that equality and fairness for all employees are central to its mission as a highly competitive business enterprise." The report also cited the ombudsman program as employees' preferred way to resolve grievances that might otherwise have become serious problems.[111] The task force's subsequent report cited more mixed results. Although the overall percentage of women and minority employees increased slightly, the percentage of new hires and promotions in both categories declined, and the representation of women and minorities in executive positions fell slightly as well. Nevertheless, the percentage of promotions in these groups exceeded the percentage represented in the overall Texaco workforce, and this was viewed as a sign of continuing progress.[112] These reports noted that there was much more work to be done, particularly after the firm became part of Chevron in 2001. On its website, Chevron says that it values diversity and runs the business ‘‘in a way that respects our employees and the world community.’’ The company has recently received awards for its treatment of women and of gay, lesbian, and transgender employees and was named a 1008 Best Diversity Company by *Diversity/Careers in Engineering & Information Technology* magazine.

Case Questions

1. Identify the ethical culture problem at Texaco in the mid-1990s.
2. Based on the facts in the case and what you have learned in this chapter, evaluate the culture change effort that is under way. What cultural systems have been targeted in the culture change effort? What systems are missing, if any? Does the culture appear to be in alignment? Misalignment? What else might management do that it hasn’t already done to make the culture change successful?
3. How long might such a culture change take?

CASE

AN UNETHICAL CULTURE IN NEED OF CHANGE: TAP PHARMACEUTICALS

In 1995, Douglas Durand was offered the position of vice president for sales at TAP Pharmaceuticals. TAP had been formed 25 years before by Takeda Chemical Industries of Japan and Abbott Laboratories. Durand, 50 years old at the time, had married his high school sweetheart and worked for Merck & Co. for 20 years, during which he moved up in the sales organization to senior regional director. TAP offered him the opportunity to earn 40 percent more per year (in addition to a $50,000 signing bonus) and help the company move from niche player to mass-market purveyor of ulcer and prostate cancer medicine. He took advantage of the opportunity and looked forward to the challenge.

But only a few months after arriving at TAP, he was shocked to find a very different culture from the one he had become accustomed to at Merck. Merck has long had a reputation for ethics and social responsibility, and these qualities had been borne out in Durand’s two decades of experience. For example, at Merck, every new marketing campaign was evaluated by a legal and regulatory team before being launched, and drugs were pulled back if necessary. But TAP turned out to be very different. It quickly became clear that this was a culture where only numbers mattered. On his very first day on the job, Durand learned that TAP had no in-house legal counsel. The legal counsel was considered a "sales prevention department." At one point, Durand found himself listening in on a conference call where sales representatives were openly discussing bribing urologists with an up-front "administration fee" to doctors who prescribed Lupron, the company's new drug for prostate cancer. TAP sales representatives also gave doctors Lupron samples at a discount or for free; then they encouraged the doctors to charge Medicare full price and keep the difference. Durand overheard doctors boasting about their Lupron purchases of boats and second homes. TAP offered a big-screen TV to every urologist in the country (10,000!), along with offers of office equipment and golf vacations. And reps weren't accounting for the free samples they gave away—as required by law. Durand knew that failure to account for a single dose can lead to a fine of as much as \$1 million. Finally, rather than selling drugs based on good science, TAP held parties for doctors. One such party for a new ulcer drug featured "Tummy," a giant fire-belching stomach.

Durand soon became frantic and worried about his own guilt by association. Initially, he tried to change the culture. After all, he had been hired as a vice president. But everything he tried was resisted. He was told that he just didn't understand the culture at TAP. When he talked about the importance of earning physicians' trust, the sales reps just rolled their eyes. He then tried to influence change "the TAP way" by offering a bonus to reps who kept accurate records of their samples. The program actually worked, but then senior management discontinued the bonus—and, of course, the reps stopped keeping track. Over time, Durand began finding himself excluded from meetings, and he felt trapped. What would happen to him if he left this new job in less than a year? He wouldn't collect his bonus, and he wondered if anyone else would hire him. What would happen to his family? But he also worried about becoming the corporate scapegoat.

In desperation, Durand turned to an old friend he knew from Merck—Glenna Crooks, now president of Strategic Health Policy International. Appalled by what she heard, Crooks encouraged him to document the abuses he had observed and share the information with Elizabeth Ainslie, a Philadelphia attorney. Given the documented fraud against the U.S. government, Ainslie encouraged Durand to sue TAP under the federal whistle-blower program. Armed with documents, he filed the suit and federal prosecutors ran with it. Durand left TAP for Astra Merck in 1996. But under the whistle-blower program, investigations are conducted in secret. Neither TAP nor Astra Merck was supposed to know about it. The investigation took years, and, when called to testify, Durand had to make excuses to take time off from his new job. He was uncomfortable living as a "double agent." In the end, TAP pleaded guilty to conspiracy to cheat the federal government and agreed to pay a record \$875 million fine. In October 2001, Durand collected \$77 million (\$28 million went to taxes), his 14 percent share of the fine paid under the federal whistle-blower statute. He retired to Florida to be closer to his parents, but he had yet to face the unpleasant task of testifying against six TAP executives, some of whom had worked for him.

Case Questions

1. Analyze the ethical culture at TAP. Does the culture appear to be in alignment? Misalignment?
2. Based on the facts in the case and what you have learned in this chapter, evaluate the culture change effort that Douglas Durand undertook. What cultural systems did he target in the culture change effort? What systems were missing, if any?
3. Why did his culture change effort fail? What would it take for it to succeed?

Source: C. Haddad. and A. Barrett, "A Whistle-Blower Rocks an Industry," *Business Week*, 24 June 2002, 126–30.

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