Managing to be ethical: Debunking five business ethics myths

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Executive Summary

In the aftermath of recent corporate scandals, managers and researchers have turned their attention to questions of ethics management. We identify five common myths about business ethics and provide responses that are grounded in theory, research, and business examples. Although the scientific study of business ethics is relatively new, theory and research exist that can guide executives who are trying to better manage their employees' and their own ethical behavior. We recommend that ethical conduct be managed proactively via explicit ethical leadership and conscious management of the organization's ethical culture.

The twenty-first century has brought corporate ethics scandals that have harmed millions of employees and investors, and sent shock waves throughout the business world. The scandals have produced "perp walks" and regulatory backlash, and business ethics is once again a hot topic. Academics and managers are asking: What caused the recent rash of corporate wrongdoing, and what can we do, if anything, to prevent similar transgressions in the future? Perhaps because everyone has opinions about ethics and personal reactions to the scandals, a number of pat answers have circulated that perpetuate a mythology of business ethics management. In this article, we identify several of these myths and respond to them based upon knowledge grounded in research and practice.

Myth 1: It's Easy to Be Ethical

A 2002 newspaper article was entitled, "Corporate ethics is simple: If something stinks, don't do it." The article went on to suggest "the smell test" or "If you don't want to tell your mom what you're really doing . . . or read about it in the press, don't do it."[1] The obvious suggestion is that being ethical in business is easy if one wants to be ethical. A further implication is that if it's easy, it doesn't need to be managed. But that suggestion disregards the complexity surrounding ethical decision-making, especially in the context of business organizations.

Ethical Decisions Are Complex

First, ethical decisions aren't simple. They're complex by definition. As they have for centuries, philosophers argue about the best approaches to making the right ethical decision. Students of business ethics are taught to apply multiple normative frameworks to tough dilemmas where values conflict. These include consequentialist frameworks that consider the benefits and harms to society of a potential decision or action, deontological frameworks that emphasize the application of ethical principles such as justice and rights, and virtue ethics with its emphasis on the integrity of the moral actor, among other approaches.[2] But, in the most challenging ethical dilemma situations, the solutions provided by these approaches conflict with each other, and the decision maker is left with little clear guidance. For example, multinational businesses with manufacturing facilities in developing countries struggle with employment practice issues. Most Americans believe that it is harmful and contrary to their rights to employ children. But children routinely contribute to family income in many cultures. If corporations simply refuse to hire them or fire those who are working, these children may resort to begging or even more dangerous employment such as prostitution. Or they and their families may risk starvation. What if respecting the rights of children in such situations

produces the greater harm? Such business decisions are more complex than most media reports suggest, and deciding on the most ethical action is far from simple.

Moral Awareness Is Required

Second, the notion that "it's easy to be ethical" assumes that individuals automatically know that they are facing an ethical dilemma and that they should simply choose to do the right thing. But decision makers may not always recognize that they are facing a moral issue. Rarely do decisions come with waving red flags that say, "Hey, I'm an ethical issue. Think about me in moral terms!"[3] Dennis Gioia was recall coordinator at Ford Motor Company in the early 1970s when the company decided not to recall the Pinto despite dangerous fires that were killing the occupants of vehicles involved in low-impact rear-end collisions. In his information-overloaded recall coordinator role, Gioia saw thousands of accident reports, and he followed a cognitive "script" that helped him decide which situations represented strong recall candidates and which did not. The incoming information about the Pinto fires did not penetrate a script designed to surface other issues, and it did not initially raise ethical concerns. He and his colleagues in the recall office didn't recognize the recall issue as an ethical issue. In other examples, students who download their favorite music from the Internet may not think about the ethical implications of "stealing" someone else's copyrighted work. Or, a worker asked to sign a document for her boss may not recognize this as a request to "forge" legal documents.

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Researchers have begun to study this phenomenon, and they refer to it as moral awareness, ethical recognition, or ethical sensitivity. The idea is that moral judgment processes are not initiated unless the decision-maker recognizes the ethical nature of an issue. So, recognition of an issue as an "ethical" issue triggers the moral judgment process, and understanding this initial step is key to understanding ethical decision-making more generally.

T. M. Jones proposed that the moral intensity of an issue influences moral issue recognition,[4] and this relationship has been supported in research.

Two dimensions of moral intensity–magnitude of consequences and social consensus–have been found in multiple studies to influence moral awareness.[5] An individual is more likely to identify an issue as an ethical issue to the extent that a particular decision or action is expected to produce harmful consequences and to the extent that relevant others in the social context view the issue as ethically problematic. Further, the use of moral language has been found to influence moral awareness.[6] For example, in the above cases, if the words "stealing" music (rather than downloading) or "forging" documents (rather than signing) were used, the individual would be more likely to think about these issues in ethical terms.

Ethical Decision-Making Is a Complex, Multi-Stage Process

Moral awareness represents just the first stage in a complex, multiple-stage decision-making process[7] that moves from moral awareness to moral judgment (deciding that a specific action is morally justifiable), to moral motivation (the commitment or intention to take the moral action), and finally to moral character (persistence or follow-through to take the action despite challenges).

The second stage, moral judgment, has been studied within and outside the management literature.[8] Lawrence Kohlberg's well-known theory of cognitive moral development has guided most of the empirical research in this area for the past thirty years.[9] Kohlberg found that people develop from childhood to adulthood through a sequential and hierarchical series of cognitive stages that characterize the way they think about ethical dilemmas. Moral reasoning processes become more complex and sophisticated with development. Higher stages rely upon cognitive operations that are not available to individuals at lower stages, and higher stages are thought to be "morally better" because they are consistent with philosophical theories of justice and rights.

At the lowest levels, termed "preconventional," individuals decide what is right based upon punishment avoidance (at stage 1) and getting a fair deal for oneself in exchange relationships (at stage 2). Next, the conventional level of cognitive moral development includes stages 3 and 4. At stage 3, the individual is concerned with conforming to the expectations of significant others, and at stage 4 the perspective broadens to include society's rules and laws as a key influence in deciding what's right. Finally, at the highest "principled" level, stage 5, individuals' ethical decisions are guided by principles of justice and rights.

Perhaps most important for our purposes is the fact that most adults in industrialized societies are at the "conventional" level of cognitive moral development, and less than twenty per cent of adults ever reach the "principled" level where thinking is more autonomous and principle-based. In practical terms, this means that most adults are looking outside themselves for guidance in ethical dilemma situations, either to significant others in the relevant environment (e.g., peers, leaders) or to society's rules and laws. It also means that most people need to be led when it comes to ethics.

The Organizational Context Creates Additional Pressures and Complexity

Moral judgment focuses on *deciding* what's right—not necessarily *doing* what is right. Even when people make the right decision, they may find it difficult to follow through and do what is right because of pressures from the work environment. Research has found that principled individuals are more likely to behave in a manner consistent with their moral judgments, and they are more likely to resist pressures to behave unethically.[10] However, most people never reach the principled level. So, the notion that being ethical is simple also ignores the pressures of the organizational context that influence the relationship between moral judgment and action.

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Consider the following ethical-dilemma situation. You find yourself in the parking lot, having just dented the car next to you. The ethical decision is relatively simple. It's about you and your behavior. No one else is really involved. You have harmed someone else's property, you're responsible, and you or your insurance company should pay for the repairs. It's pretty clear that you should leave a note identifying yourself and your insurance company. Certainly, there may be negative consequences if you leave that note. Your insurance rates may go up. But doing the right thing in this situation is fairly straightforward.

Contrast that to business-context situations. It is much harder to "just say no" to a boss who demands making the numbers at all costs. Or to go above the boss's head to someone in senior man-

agement with suspicions that "managing earnings" has somehow morphed into "cooking the books." Or to walk away from millions of dollars in business because of concerns about crossing an ethical line. Or to tell colleagues that the way they do business seems to have crossed that line. In these situations, the individual is operating within the context of the organization's authority structure and culture—and would likely be concerned about the consequences of disobeying a boss's order, walking away from millions of dollars in business, or blowing the whistle on a peer or superior. What would peers think? How would the leadership react? Would management retaliate? Is one's job at risk?

It may seem curious that people often worry about whether others will think of them as too ethical. But all of us recognize that "snitches" rarely fit in, on the playground or in life, and whistleblowers are frequently ostracized or worse.[11] The reasons for their ostracism are not fully understood, but they may have to do with humans' social nature and the importance of social group maintenance. Research suggests that people who take principled stands, such as those who are willing to report a peer for unethical behavior, are seen as highly ethical while, at the same time, they are thought to be highly unlikable.[12] Nearly a third of respondents to the 2003 National Business Ethics Survey[13] said "their coworkers condone questionable ethics practices by showing respect for those who achieve success using them." Further, about forty per cent of respondents said that they would not report misconduct they observed because of fear of retaliation from management. Almost a third said they would not report misconduct because they feared retaliation from coworkers.

If you think this applies only to the playground or the factory floor, ask yourself why we haven't seen more CEOs proclaiming how appalled they are at the behavior of some of their peers after recent ethics scandals. Yes, we heard from a few retired CEOs. But very few active senior executives have spoken up. Why not? They're probably uncomfortable passing moral judgment on others or holding themselves up as somehow ethically better than their peers. So, social context is important because people, including senior executives, look to others for approval of their thinking and behavior.

In sum, being ethical is not simple. Ethical decisions are ambiguous, and the ethical decision-making process involves multiple stages that are fraught with complications and contextual pressures. Individuals may not have the cognitive sophistication to make the right decision. And most people will be influenced by peers' and leaders'

words and actions, and by concerns about the consequences of their behavior in the work environment.

Myth 2: Unethical Behavior in Business Is Simply the Result of "Bad Apples"

A recent headline was "How to Spot Bad Apples in the Corporate Bushel."[14] The bad-apple theory is pervasive in the media and has been around a long time. In the 1980s, during a segment of the McNeil Lehrer Report on PBS television, the host was interviewing guests about insider trading scandals. The CEO of a major investment firm and a business school dean agreed that the problems with insider trading resulted from bad apples. They said that educational institutions and businesses could do little except to find and discard those bad apples after the fact. So, the first reaction to ethical problems in organizations is generally to look for a culprit who can be punished and removed. The idea is that if we rid the organization of one or more bad apples, all will be well because the organization will have been cleansed of the perpetrator.

Certainly there are bad actors who will hurt others or feather their own nests at others' expense—and they do need to be identified and removed. But, as suggested above, most people are the product of the context they find themselves in. They tend to "look up and look around," and they do what others around them do or expect them to do.[15] They look outside themselves for guidance when thinking about what is right. What that means is that most unethical behavior in business is supported by the context in which it occurs—either through direct reinforcement of unethical behavior or through benign neglect.

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An example of how much people are influenced by those around them was in the newspaper in November, 2002. Police in New Britain, Connecticut confiscated a 50-ft. long pile of stolen items, the result of a scavenger hunt held by the "Canettes," New Britain high school's all-girl drill team. According to the Hartford Courant, police, parents, and school personnel were astonished that 42 normally law-abiding girls could steal so many items

in a single evening. But the girls had a hard time believing that they had done anything wrong. One girl said: "I just thought it was a custom . . . kind of like a camaraderie thing, [and] if the seniors said it was OK and they were in charge, then it was OK!" In another incident in May 2003, suburban Chicago high school girls engaged in an aggressive and brutal "hazing ritual" that landed five girls in the hospital.[16] We might say that these are teenagers, and that adults are different. But many of these teenagers are about to start jobs, and there are only a few years between these high school students and young people graduating from college. Most adults are more like these teens than most of us think or would prefer. The influence of peers is powerful in both cases.

When asked why they engaged in unethical conduct, employees will often say, "I had no choice," or "My boss told me to do it." Stanley Milgram's obedience-to-authority experiments, probably the most famous social psychology experiments ever conducted, support the notion that people obey authority figures even if that means harming another person.[17] Milgram, a Yale psychologist, conducted his obedience-to-authority experiments in the Hartford community on normal adults. These experiments demonstrated that nearly two-thirds of normal adults will harm another human being (give them alleged electric shocks of increasing intensity) if asked to do so by an authority figure as part of what was billed as a learning experiment. Were these people bad apples? We don't think so. Most of them were not at all comfortable doing what they were being asked to do, and they expressed sincere concern for the victim's fate. But in the end most of them continued to harm the learner because the authority figure in a lab coat told them to do so.

How does this apply to work settings? Consider the junior member of an audit team who discovers something problematic when sampling a firm's financials and asks the senior person on the audit team for advice. When the leader suggests putting the problematic example back and picking another one, the young auditor is likely to do just that. The leader may add words such as the following: "You don't understand the big picture" or "Don't worry, this is my responsibility." In this auditing example, the harm being done is much less obvious than in the learning experiment and the junior auditor's responsibility even less clear, so the unethical conduct is probably easier to carry out and more likely to occur.

The bottom line here is that most people, including most adults, are followers when it comes to ethics. When asked or told to do something uneth-

ical, most will do so. This means that they must be led toward ethical behavior or be left to flounder. Bad behavior doesn't always result from flawed individuals. Instead, it may result from a system that encourages or supports flawed behavior.

A corollary of the bad-apples argument is that ethics can't be taught or even influenced in adults because adults are autonomous moral agents whose ethics are fully formed by the time they join work organizations, and they can't be changed. This is simply not true. We know from many empirical studies[18] that the large majority of adults are *not* fully formed when it comes to ethics, and they are not autonomous moral agents. They look outside themselves for guidance in ethical-dilemma situations, and they behave based to a large extent upon what those around them–leaders and peers–expect of them. So, we have to look at the very powerful signals that are being sent about what is expected. We also know that the development of moral reasoning continues into adulthood. Those who are challenged to wrestle with ethical dilemmas in their work will develop more sophisticated ways of thinking about such issues, and their behavior will change as a result.

Myth 3: Ethics Can Be Managed Through Formal Ethics Codes and Programs

If people in organizations need ethical guidance and structural support, how can organizations best provide it? Most large organizations now have formal ethics or legal compliance programs. In 1991 the U.S. Sentencing Commission created sentencing guidelines for organizations convicted of federal crimes (see *www.ussc.gov* for information). The guidelines removed judicial discretion and required convicted organizations to pay restitution and substantial fines depending upon whether the organization turns itself in, cooperates with authorities, and whether it has established a legal compliance program that meets seven requirements for due diligence and effectiveness. These formal programs generally include the following key elements: written standards of conduct that are communicated and disseminated to all employees, ethics training, ethics advice lines and offices, and systems for anonymous reporting of misconduct. The Sarbanes-Oxley law, passed during the summer of 2002, requires corporations to set up an anonymous system for employees to report fraud and other unethical activities. Therefore, companies that did not previously have such reporting systems are busy establishing them.

Research suggests that formal ethics and legal compliance programs can have a positive impact.

For example, the Ethics Resource Center's National Business Ethics Survey[19] revealed that in organizations with all four program elements (standards, training, advice lines, and reporting systems) there was a greater likelihood (78 per cent) that employees would report observed misconduct to management. The likelihood of reporting declined with fewer program elements. Only half as many people in organizations with no formal program said that they would report misconduct to management.

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Yet, creating a formal program, by itself, does not guarantee effective ethics management. Recall that Enron had an ethics code, and the board voted to bypass its conflict-of-interest policy.[20] Not surprisingly, research suggests that actions speak louder than words. Employees must perceive that formal policies go beyond mere window dressing to represent the real ethical culture of the organization. For example, the National Business Ethics Survey reports that when executives and supervisors emphasize ethics, keep promises, and model ethical conduct, misconduct is much lower than when employees perceive that the "ethics walk" is not consistent with the "ethics talk."[21] In another study[22] formal program characteristics were found to be relatively unimportant compared with more informal cultural characteristics such as messages from leadership at both the executive and supervisory levels. In addition, perceived ethics program follow-through was found to be essential. Organizations demonstrate follow-through by working hard to detect rule violators, by following up on ethical concerns raised by employees, and by demonstrating consistency between ethics and compliance policies and actual organizational practices. Further, the perception that ethics is actually talked about in day-to-day organizational activities and incorporated into decision-making was found to be important.

So, for formal systems to influence behavior, they must be part of a larger, coordinated cultural system that supports ethical conduct every day. Ethical culture provides informal systems, along with formal systems, to support ethical conduct.[23] For example, the research cited above found that ethics-related outcomes (e.g., employee awareness of ethical issues, amount of observed misconduct, willingness to report misconduct) were much more

positive to the extent that employees perceived that ethical conduct was rewarded and unethical conduct was punished in the organization. Further, a culture that demands unquestioning obedience to authority was found to be particularly harmful while a culture in which employees feel fairly treated was especially helpful.

The Fall of Arthur Andersen

Barbara Toffler's book *Final Accounting: Ambition, Greed, and the Fall of Arthur Andersen* (2003)[24] can help us understand this notion of ethical (or unethical) organizational culture. Andersen transformed over a number of years from having a solid ethical culture to having a strong unethical culture. The company's complete demise is a rather dramatic example of the potential results of such a transformation.

In the mid-1990s, Arthur Andersen did not have a formal ethics office, but it did have formal ethical standards and ethics training. Ironically, it also established a consulting group whose practice was aimed at helping other businesses manage their ethics. Barbara Toffler was hired to run that practice in 1995 after spending time on the Harvard Business School faculty and in her own ethics consulting business. After joining Andersen, Toffler learned quickly that the firm's own ethical culture was slipping badly, and she chronicles that slippage in her book.

The book opens with the following statement "The day Arthur Andersen loses the public's trust is the day we are out of business." Steve Samek, country managing partner, made that statement on a CD-ROM concerning the firm's Independence and Ethical Standards in 1999. It was reminiscent of the old Arthur Andersen. Andersen's traditional management approach had been a top-down, "one firm" concept. Arthur Andersen had built a strong ethical culture over the years where all of the pieces fit together into a seamless whole that supported ethical conduct. No matter where they were in the world, if customers were dealing with Andersen employees, they knew that they could count on the same high-quality work and the same integrity. Employees were trained in the "Andersen Way," and that way included strong ethics. Training at their St. Charles, Illinois training facility was sacred. It created a cadre of professionals who spoke the same language and shared the same "Android" values.

Founders create culture and Arthur Andersen was no exception. Toffler says that in the firm's early days, the messages from the top about ethical conduct were strong and clear. Andersen him-

self said, "My own mother told me, 'Think straight—talk straight.' ... This challenge will never fail anyone in a time of trial and temptation." "Think straight, talk straight" became a mantra for decades at Arthur Andersen. Partners said with pride that integrity mattered more than fees. And stories about the founder's ethics became part of the firm's lore. At the young age of 28, Andersen faced down a railway executive who demanded that his books be approved—or else. Andersen said, "There's not enough money in the city of Chicago to induce me to change that report." Andersen lost the business, but later the railway company filed for bankruptcy, and Arthur Andersen became known as a firm one could trust. In the 1930s Andersen talked about the special responsibility of accountants to the public and the importance of their independence of judgment and action. Arthur Andersen died in 1947 but was followed by leaders with similar convictions who ran the firm in the 1950s and 1960s, and the ethical culture continued for many years. Pretty much through the 1980s, Andersen was considered a stable and prestigious place to work. People didn't expect to get rich—rather they wanted "a good career at a firm with a good reputation."

But, the ethical culture eventually began to unravel, and Toffler attributes much of this to the fact that the firm's profits increasingly came from management consulting rather than auditing. The leadership's earlier commitment to ethics came to be drowned out by the firm's increasing laser-like focus on revenues. Auditing and consulting are very different, and the cultural standards that worked so well in auditing didn't fit the needs of the consulting side of the business. But this mismatch was never addressed, and the resulting mixed signals helped precipitate a downward spiral into unethical practices. Serving the client began to be defined as keeping the client happy and getting return business. And tradition became translated into unquestioning obedience to the partner, no matter what one was asked to do. For example, managers and partners were expected to pad their prices. Reasonable estimates for consulting work were simply doubled or more as consultants were told to back into the numbers.

The training also began falling apart when it came to hiring experienced people from outside the firm—something that happened more and more as consulting took over. New employees had always been required to attend a three-day session designed to indoctrinate them into the culture of the firm, but new consultants were told not to forego lucrative client work to attend. So, Toffler

never made it to the training, and many other consultants didn't either.

By the time Toffler arrived at Andersen, the firm still had a huge maroon ethics binder, but no one bothered to refer to it. Ethics was never talked about. And, she says, "when I brought up the subject of internal ethics, I was looked at as if I had teleported in from another world." The assumption, left over from the old days in auditing, was that "we're ethical people; we recruit people who are screened for good judgment and values. We don't need to worry about this stuff." But, as we all learned, their failure to worry about ethics led to the demise of the firm.

Could a formal ethics office have helped Arthur Andersen? Probably not, unless that office addressed the shift toward consulting, identified the unique ethical issues faced in the consulting side of the business, developed ethical guidelines for consulting, and so on. It is easy for formal ethics offices and their programs to be marginalized if they don't have the complete support of the organization's leadership and if they are inconsistent with the broader culture. In fact, Andersen still had ethics policies and they still talked about ethics in formal documents. But the business had changed along with the culture that guided employee actions every day, while the approach to ethics management had not kept pace.

Myth 4: Ethical Leadership Is Mostly About Leader Integrity

In our discussion of Arthur Andersen, we suggested the importance of leadership. But what is executive ethical leadership? The mythology of ethical leadership focuses attention narrowly on individual character and qualities such as integrity, honesty, and fairness. The *Wall Street Journal* recently ran a story on its website entitled "Plain Talk: CEOs Need to Restore Character in Companies." It said, "The chief problem affecting corporate American right now is not the regulatory environment or snoozing board directors. It's character."[25] But as Arthur Andersen demonstrated, leaders must be more than individuals of high character. They must "lead" others to behave ethically.
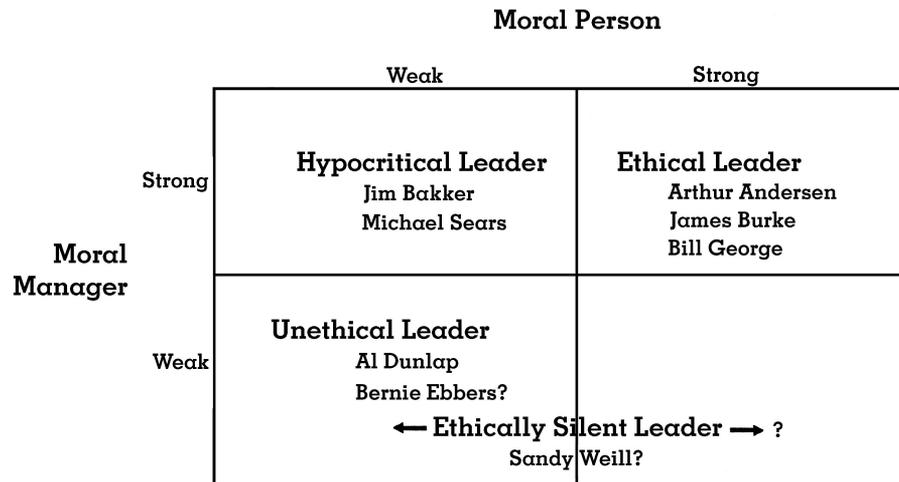
Recent research has found that certain individual characteristics are necessary but not sufficient for effective ethical leadership. Such leadership at the executive level is a reputational phenomenon. In most large organizations, employees have few face-to-face interactions with senior executives. So, most of what they know about a leader is gleaned from afar. In order to develop a reputation for ethical leadership, an executive must be per-

ceived as both a "moral person" and a "moral manager."[26]

Being perceived as a "moral person" is related to good character. It depends upon employee perceptions of the leader's traits, behaviors, and decision-making processes. Ethical leaders are thought to be honest and trustworthy. They show concern for people and are open to employee input. Ethical leaders build relationships that are characterized by trust, respect and support for their employees. In terms of decision-making, ethical leaders are seen as fair. They take into account the ethical impact of their decisions, both short term and long term, on multiple stakeholders. They also make decisions based upon ethical values and decision rules, such as the golden rule.

But being perceived as a "moral person" is not enough. Being a "moral person" tells followers what the leader will do. It doesn't tell them what the leader expects *them* to do. Therefore, a reputation for ethical leadership also depends upon being perceived as a "moral manager," one who leads others on the ethical dimension, lets them know what is expected, and holds them accountable. Moral managers set ethical standards, communicate ethics messages, role model ethical conduct, and use rewards and punishments to guide ethical behavior in the organization.

Combining the "moral person" and "moral manager" dimensions creates a two-by-two matrix (see Figure 1). A leader who is strong on both dimensions is perceived to be an *ethical leader*. We can point to Arthur Andersen as an exemplar of ethical leadership. He was known as a strong ethical person who also clearly led his organization on ethics and values. People knew what they could expect of him, and they knew what he expected of them from an ethics perspective. Another example of ethical leadership is James Burke, CEO of Johnson & Johnson during the early 1980s Tylenol crisis (when Tylenol was laced with cyanide in the Chicago area). Burke handled that crisis masterfully, recalling all Tylenol at a huge financial cost to the firm. But his ethical leadership had begun much earlier when he first took the CEO helm. He focused the organization's attention on the company's long-standing credo and its values. He demanded that senior executives either subscribe to the credo or remove it from the wall. He didn't want to run a hypocritical organization. He also launched the credo survey, an annual survey that asks employees how the company is doing relative to each of the credo values. Bill George, recently retired CEO of Medtronic, is a more current example of an ethical leader. In his book *Authentic Leadership*, George calls for responsible ethical leadership in

Moral Person

	Weak	Strong
Strong	**Hypocritical Leader** Jim Bakker Michael Sears	**Ethical Leader** Arthur Andersen James Burke Bill George
Weak	**Unethical Leader** Al Dunlap Bernie Ebbers?	

Moral Manager (row label, left side)

← **Ethically Silent Leader** → ?
Sandy Weill?

FIGURE 1
Executive Ethical Leadership Reputation Matrix

Figure adapted with permission from Treviño, L. K., Hartman, L. P., Brown, M. 2000. Moral person and moral manager: How executives develop a reputation for ethical leadership. *California Management Review,* 42(4): 128–142.

corporate America while recounting his own struggles to stay true to the company's mission and to himself.[27]

A leader who is neither a moral person nor a moral manager is an *unethical leader.* In our research, Al Dunlap was frequently identified as an unethical leader. Subject of a book entitled *Chainsaw,*[28] Dunlap was known as an expert turnaround manager. But while at Sunbeam, he also became known for "emotional abuse" of employees. As a result of his demands to make the numbers at all costs, employees felt pressure to use questionable accounting and sales techniques, and they did. Dunlap also lied to Wall Street, assuring them that the firm would reach its financial projections. In the end, Dunlap could no longer cover up the sorry state of affairs, and he left a crippled company when the board fired him in 1998. In 2002, he paid a $500,000 fine for financial fraud and agreed never to serve as an officer or director of a public corporation. Unfortunately, there are many candidates for a more current example of unethical leadership: Dennis Kozlowski from Tyco, Bernie Ebbers from WorldCom, and Richard Scrushy from HealthSouth are just a few executive names attached to recent business scandals.

Leaders who communicate a strong ethics/values message (who are moral managers), but who are not perceived to be ethical themselves (they are not moral persons) can be thought of as *hypocritical leaders.* Nothing makes people more cynical than a leader who talks incessantly about integrity, but then engages in unethical conduct himself and encourages others to do so, either explicitly or implicitly. Hypocritical leadership is all about ethical pretense. The problem is that by spotlighting integrity, the leader raises expectations and awareness of ethical issues. At the same time, employees realize that they can't trust the leader.

Jim Bakker, the founder of PTL Ministries, is our favorite example of a hypocritical leader. At its peak, his television ministry had 2000 employees and reached more than ten million homes. Bakker preached about doing the Lord's work while raising funds for his Heritage USA Christian theme park. The problem was that he sold more memberships than could ever be honored. He tapped millions of dollars donated by his followers to support PTL operating expenses including huge salaries and bonuses for his family and high ranking PTL officials. PTL filed for bankruptcy in 1987, and Bakker spent eight years in prison.[29]

Michael Sears, recently fired from Boeing for offering a job to an Air Force procurement specialist while she was overseeing negotiations with Boeing, represents a more recent example of a hypocritical leader. Sears had played a significant role at the Boeing Leadership Center which is known for its programs related to ethics. Also, shortly before his firing, Sears released advance copies of his book *Soaring Through Turbulence* which included a section on maintaining high ethical standards.[30]

We call the final combination *ethically silent leadership.* It applies to executives who are neither strong ethical nor strong unethical leaders. They fall into what employees perceive to be an ethically neutral leadership zone. They may be ethical persons, but they don't provide leadership in the

crucial area of ethics, and employees aren't sure where the leaders stand on ethics or if they care. The ethically silent leader is not perceived to be unethical but is seen as focusing intently on the bottom line without setting complementary ethical goals. There is little or no ethics message coming from the top. But silence represents an important message. In the context of all the other 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, so employees act on that message. Business leaders don't like to think that their employees perceive them as ethically silent. But given the current climate of cynicism, unless leaders make an effort to stand out and lead on ethics, they are likely to be viewed that way.

Sandy Weill, CEO of Citigroup, may fit the ethically silent leader category. The company has been playing defense with the media, responding to ugly headlines about ethics scandals, especially at its Smith Barney unit where stock analysts were accused of essentially "selling" their stock recommendations for banking business. Weill's management style is to hire competent people to run Citigroup's units and to let them do their jobs. That may work well for other aspects of the business, but ethics must be managed from the top and center of the organization. According to *Fortune* magazine, Weill has now "gotten religion," if a bit late. Weill has "told his board that he feels his most important job from now on is to be sure that Citigroup operates at the highest level of ethics and with the utmost integrity." New procedures and business standards are being developed at corporate headquarters, and a new CEO was appointed at Smith Barney. However, *Fortune* also cites cynicism about this recent turnabout, noting that Weill is often "tone deaf" on ethical issues.[31]

So, developing a reputation for ethical leadership requires more than strong personal character. Employees must be "led" from the top on ethics just as they must be led on quality, competitiveness, and a host of other expected behaviors. In order to be effective ethical leaders, executives must demonstrate that they are ethical themselves, they must make their expectations of others' ethical conduct explicit, and they must hold all of their followers accountable for ethical conduct every day.

Myth 5: People Are Less Ethical Than They Used To Be

In the opening to this article, we said that business ethics has once again become a hot topic. The media have bombarded us with information about ethics scandals, feeding the perception that morals are declining in business and in society more generally.

According to a poll released by the PR Newswire in summer 2002, sixty-eight per cent of those surveyed believe that senior corporate executives are less honest and trustworthy today than they were a decade ago.[32] But unethical conduct has been with us as long as human beings have been on the earth, and business ethics scandals are as old as business itself. The Talmud, a 1500-year-old text, includes about 2 million words and 613 direct commandments designed to guide Jewish conduct and culture. More than one hundred of these concern business and economics. Why? Because "transacting business, more than any other human activity, tests our moral mettle and reveals our character" and because "working, money, and commerce offer . . . the best opportunities to do good deeds such as . . . providing employment and building prosperity for our communities and the world."[33]

So, unethical behavior is nothing new. It's difficult to find solid empirical evidence of changes over time. But studies of student cheating have found that the percentage of college students who admit to cheating has not changed much during the last thirty years.[34] Some types of cheating have increased (e.g., test cheating, collaboration on individual assignments). Other types of cheating have declined (e.g., plagiarism, turning in another student's work). Certainly, given new technologies and learning approaches, students have discovered some clever new ways to cheat, and professors have their work cut out for them keeping up with the new methods. But the amount of overall cheating hasn't increased that much. Further, when employees were asked about their own work organizations, the 2003 National Business Ethics Survey found that employee perceptions of ethics are generally quite positive. Interestingly, key indicators have actually improved since the last survey conducted in 2000.[35]

Alan Greenspan said it well on July 16, 2002: "It is not that humans have become any more greedy than in generations past. It is that the avenues to express greed [have] grown so enormously." So, unethical behavior is nothing new, and people are probably not less ethical than they used to be. But the environment has become quite complex and is rapidly changing, providing all sorts of ethical challenges and opportunities to express greed.

If ethical misconduct is an ongoing concern, then organizations must respond with lasting solutions that embed support for ethics into their cultures rather than short-term solutions that can easily be

undone or dismissed as fads. The risk is that the current media focus on unethical conduct will result in "faddish" responses that offer overly simplistic solutions and that result inevitably in disillusionment and abandonment. Faddish solutions often result from external pressures to "do something" or at least look like you're doing something. The current focus on scandal certainly includes such pressures.[36] But the recognition that unethical conduct is a continuing organizational problem may help to convince managers that solutions should be designed that will outlast the current intense media focus.

What Executives Can Do: Guidelines for Effective Ethics Management

Building upon what we have learned, we offer guidelines for effective ethics management. The overarching goal should be to create a strong ethical culture supported by strong ethical leadership. Why culture? Because we've seen that being ethical is not simple, and that people in organizations need ethical guidance and support for doing the right thing. Executive leaders must provide that structure and ethical guidance, and they can do that best by harnessing multiple formal and informal cultural systems.[37] People should respond positively to the kind of structure that aims to help them do the right thing. If management says, "We want you to do the right thing, the ethical thing, and we're going to try to create a culture that helps you to do that," employee response should be quite positive so long as employees believe that management is sincere and they observe consistency between words and actions.

First: Understand the Existing Ethical Culture

Leaders are responsible for transmitting culture in their organizations, and the ethical dimension of organizational culture is no exception. According to Schein, the most powerful mechanisms for embedding and reinforcing culture are: (1) what leaders pay attention to, measure, and control; (2) leader reactions to critical incidents and organizational crises; deliberate role modeling, teaching, and coaching by leaders; (3) criteria for allocation of rewards and status; and (4) criteria for recruitment, selection, promotion, retirement, and excommunication.[38]

If leaders wish to create a strong ethical culture, the first step is to understand the current state: What are the key cultural messages being sent about ethics? It's a rare executive who really understands the ethical culture in an organization.

And the higher you go in the organization, the rosier the perception of the ethical culture is likely to be.[39] Why? Because information often gets stuck at lower organizational levels, and executives are often insulated from "bad news," especially if employees perceive that the organization "shoots the messenger." Executives need anonymous surveys, focus groups, and reporting lines, and people need to believe that the senior leaders really want to know, if they are to report honestly on the current state of the ethical culture.

In surveys, ask for employee perceptions of supervisory and executive leadership and the messages they send by their communications and behavior. And listen to what employees say. Ask employees whether they perceive that they are treated fairly, and whether the company acts as if it cares about them, its customers, and other stakeholders. Find out what messages the reward system is sending. Do employees believe that ethical "good guys" are rewarded and unethical "bad guys" are punished in the organization? What do employees think is required in order to succeed or to be fired? Follow the kinds of calls coming in to ethics telephone lines. Learn whether employees are asking questions and reporting problems. Use this information to identify needs for training and other interventions. In focus groups, find out who the organizational heroes are (is it the sales representative who steps on peers in order to get ahead or a manager who is known for the highest integrity?). Ask what stories veterans would tell a new hire about ethics in your organization.

Second: Communicate the Importance of Ethical Standards

Employees need clear and consistent messages that ethics is essential to the business model, not just a poster or a website. Most businesses send countless messages about competition and financial performance, and these easily drown out other messages. In order to compete with this constant drumbeat about the short-term bottom line, the messages about ethical conduct must be just as strong or stronger and as frequent. Simply telling people to do the right thing, is not enough. They must be prepared for the types of issues that arise in their particular business and position, and they must know what to do when ethics and the bottom line appear to be in conflict. Executives should tie ethics to the long-term success of the business by providing examples from their own experience or the experiences of other successful employees.

Make sure that messages coming from executive and supervisory leaders are clear and consistent.

Train employees to recognize the kinds of ethical issues that are likely to arise in their work. Demand discussion of ethics and values as part of routine business decision-making. When making important decisions, ask, "Are we doing the 'right' (i.e., ethical) thing? Who could be hurt by this decision? How could this affect our relationships with stakeholders and our long-term reputation?" Share those deliberations with employees. Finally, be sure to let employees know about exemplary ethical conduct. For example, the famous story about Arthur Andersen losing the railway business because he refused to alter the books was recounted over and over again in the firm and made it absolutely clear that "think straight, talk straight" actually meant something in the firm.

Third: Focus on the Reward System

The reward system may be the single most important way to deliver a message about what behaviors are expected. B.F. Skinner knew what he was talking about. People do what's rewarded, and they avoid doing what's punished.[40] Let's look at the positive side first—can we really reward ethical behavior? In the short term, we probably cannot. For the most part, ethical behavior is simply expected, and people don't expect or want to be rewarded for doing their jobs the right way.[41] But in the longer term, ethical behavior can be rewarded by promoting and compensating people who are not only good at what they do, but who have also developed a reputation with customers, peers, subordinates, and managers as being of the highest integrity. The best way to hold employees accountable for ethical conduct is to incorporate evaluation of it into 360 degree performance management systems and to make this evaluation an explicit part of compensation and promotion decisions. The idea is that the bottom line and ethical performance both count; unless individuals have both, they should not advance in the organization.

Also, exemplary behavior can be rewarded. At Lockheed Martin, at the annual Chairman's meeting, a "Chairman's Award" goes to an employee who exhibited exemplary ethical conduct in the previous year. All senior corporate leaders are expected to expend effort each year to find examples of exemplary ethical conduct in their own business units and make nominations. The award ceremony, attended by all 250 senior executives, is exactly the kind of "ritual" that helps to create an ethical culture. Stories are shared, they become part of the organization's lore, the potential impact growing as the stories accumulate over time.[42]

Perhaps even more important than rewarding ethical conduct is taking care not to reward unethical conduct. That's what began to happen at Arthur Andersen as generating revenue became the only rewarded behavior, and it didn't matter how you did it. For example, consultants were rewarded for making a project last by finding reasons (legitimate or not) to stay on. Toffler says, "Like the famous Roach Motel, consultants were taught to check in, but never check out."[43] So, clients were overcharged, consulting jobs were dragged out, and colleagues were "screwed" along the way because the rewards supported such unethical conduct.

And what about discipline? Unethical conduct should be disciplined swiftly and fairly when it occurs at any level in the organization. The higher the level of the person disciplined, the stronger the message that management takes ethics seriously. That's what is behind the "perp walks" we have observed in the media. The public wants to see that fraudulent conduct among America's executives will not be tolerated. Similarly, inside organizations, employees want to see misconduct disciplined, and disciplined harshly.[44] Overall, employees must perceive that good guys get ahead and bad guys don't—they get punished. But, remember, it's often not enough to punish or remove a bad guy or a bad apple. The system should be checked to see if the existing reward system or other messages contributed to the bad behavior.

Fourth: Promote Ethical Leadership Throughout the Firm

Recall that being a "moral person" who is characterized by integrity and fairness, treats people well, and makes ethical decisions is important. But those elements deal only with the "ethical" part of ethical leadership. To be ethical leaders, executives have to think about the "leadership" part of the term. Providing ethical "leadership" means making ethical values visible—communicating about not just the bottom-line goals (the ends) but also the acceptable and unacceptable means of getting there (the means). Being an ethical leader also means asking very publicly how important decisions will affect multiple stakeholders—shareholders, employees, customers, society—and making transparent the struggles about how to balance competing interests. It means using the reward system to clearly communicate what is expected and what is accepted. That means rewarding ethical conduct and disciplining unethical conduct, even if the rule violator is a senior person or a top producer. Find a

way to let employees know that the unethical conduct was taken seriously and the employee disciplined.

Ethical cultures and ethical leaders go hand in hand. Building an ethical culture can't be delegated. The CEO must be the Chief Ethics Officer of his or her organization.[45] Many CEOs may feel that they would rather pass on this challenge—that they don't really know how to do it—or they may prefer to believe that everyone in their organization is already ethical. But ethics is being "managed" in their organizations with or without their attention to it. Benign neglect of the ethical culture simply leads to employees reaching the conclusion, rightly or wrongly, that leaders don't care as much about ethics as they do about other things. Leaders develop a reputation in this arena. Chances are that if the leader hasn't thought much about this reputation or hasn't been very proactive about it, people in the organization will likely label him or her as an ethically neutral leader. That doesn't mean that the leader *is* ethically neutral or doesn't take ethics into account in decision-making. It does mean that people aren't sure where the leader stands on the frequent conflicts between ethics and the bottom line. Without explicit guidance, they assume that the bottom-line messages are the most important.

As we've said, senior executives are extremely important. They set the tone at the top and oversee the ethical culture. But from an everyday implementation perspective, front-line supervisors are equally important because of their daily interactions with their direct reports. An ethical culture ultimately depends upon how supervisors treat employees, customers, and other stakeholders, and how they make decisions. Do they treat everyone honestly, fairly and with care? Do supervisors point out when their group is facing a decision with ethical overtones? Do they consider multiple stakeholder interests and the long-term reputation of the organization in decision-making? Do they hold themselves and their people accountable for ethical conduct? Or, do they focus only on short-term bottom-line results?

Ethics Isn't Easy

Unethical conduct in business has been with us as long as business transactions have occurred. People are not necessarily more unethical today, but gray areas abound along with many opportunities to cross into unethical territory. Much unethical conduct is the result not just of bad apples but of neglectful leadership and organizational cultures

that send mixed messages about what is important and what is expected. It isn't easy to be ethical. Employees must recognize ethical issues in their work, develop the cognitive tools to make the right choices, and then be supported in those choices by the organizational environment. Executives must manage the ethical conduct of their employees as proactively as they manage any important behavior. And the complexity of the management system should match the complexity of the behavior being managed.

The best way to manage ethical conduct is by aligning the multiple formal and informal cultural systems in support of doing the right thing. Cultural messages about the importance of trust and long-term relationships with multiple stakeholders must get at least as much attention as messages about the short-term bottom line, and employees must be held accountable for ethical conduct through performance management and reward systems.

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