

MAKING SENSE OF MORAL MELTDOWNS

David Luban

The wave of corporate scandals that began in 2001 produced a remarkable parade of business executives partaking in what has become an American ritual: the Perp Walk. In the ensuing four years, we have witnessed trials and mistrials and retrials of John and Timothy Rigas (Adelphia), Dennis Kozlowski and Mark Swartz (Tyco), Bernard Ebbers (WorldCom), Richard Scrushy (Health South), and Andrew and Lea Fastow (Enron), and we are approaching trials of Enron's Kenneth Lay and Jeffrey Skilling. Scrushy was acquitted, and Kozlowski dodged the conviction bullet once, only to be retried and convicted.

The successful defense of Richard Scrushy was that he did not know what his underlings were doing. Kozlowski worked the same defense in his first trial, while Ebbers and the Rigas (father and son) attempted it but failed. Legal observers expect Lay to venture the same defense of ignorance. The defense is in its own way as damning of these executives' leadership as the charges against them. If the defense fails, they stand convicted of orchestrating crimes and frauds. If it succeeds, they stand acquitted because they did not know what

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was going on in the companies they led. Acquittal signifies that their leadership was at best utterly inept. At worst, acquittal indicates that they not only fostered an amoral, win-at-all-costs moral climate, they also succeeded in engineering their own deniability. Either they were ostriches, hiding their heads in the sand as their managers committed crimes, or they were foxes who understood the importance of not knowing too much and then managed to persuade juries that their carefully contrived ignorance was exculpatory.¹ In all cases, these were disastrous examples of moral leadership. The remarkable fact is that before their businesses crashed, all these people were among the most successful and innovative business leaders in America. Those one tier down—the lawyers, accountants, consultants, and other professionals involved in different aspects of the crooked deals and cooked books—have also gotten into trouble. Arthur Andersen accounting partner David Duncan pleaded guilty to obstruction of justice charges based on Enron document shredding; and, based on the conduct of Andersen’s lawyer, Nancy Temple, the accounting giant was itself convicted. (The U.S. Supreme Court overturned the conviction because it deemed the jury instructions inadequate, but Andersen had already been ruined, and it could still face retrial.)

My aim in this chapter is to explore why executive and professional leadership goes sour. The examination proceeds along four principal dimensions: ethical, cultural, economic, and psychological.

The Ethical Dimension: Adversarial Ethics

At its simplest, what we seem to have witnessed in Enron, World-Com, Global Crossing, Arthur Andersen, Merrill Lynch, and the other high-profile cases of the past few years is an epidemic of dishonesty, self-dealing, cheating, and even outright theft—an incredible failure to honor the most basic rules of Sunday school morality by executives and professionals who people trusted to know better than that and to do better than that. Obviously it was not the first such epidemic: the 1980s were marked by spectacular insider-trading

scandals (at least two financial titans, Ivan Boesky and Michael Milken, went to jail), followed by the savings-and-loan catastrophe. It will not be the last either.

What conclusions we should draw from pandemic business scandals is likely to depend on one's overall outlook on business regulation. Those who think that our economy works best when executives have lots of power and discretion to make innovative, high-risk decisions are likely to favor tough enforcement over new regulation. According to their view, the fraudulent executives are bad apples in a basically sweet barrel. Whatever we do, let us make sure we do not kill the apple tree with a regulatory chainsaw. Others argue that the problem is not a few bad apples but a system that allows gross conflicts of interest and cries out for regulation. Their view is that the rottenness goes a lot deeper into the barrel than the notorious bad apples on top. With a system that makes self-dealing so easy and so profitable, it is no wonder that basic honesty goes out the window.²

I take a different outlook from both of these. My proposition is that most of the people who brought us these scandals have ethical belief systems that are not much different from yours and mine. I suspect that if you asked them whether they think lying and cheating are okay, they would answer with an indignant no, and if you gave them a lie detector test when they said it, the needle would not budge. I do not pretend to see into people's brains, but I would be willing to bet that virtually none of the architects of these scandals—not the executives, not the accountants, not the lawyers—really thinks he or she did anything wrong. In that case, you might be asking what planet these people come from, but the answer, of course, is that we are standing on it. In their basic moral outlook, most will not turn out to be that much different from anyone else.

The fact is that everyday morality does not have settled principles for hypercompetitive, highly adversarial settings.³ For example, when the other side fights dirty, can you fight dirty too? On this issue, most people's moral intuitions are conflicted. Even Sunday school sends a double message. On the one hand, we say that two

wrongs do not make a right and tell ourselves to turn the other cheek. On the other hand, we say that turnabout is fair play, we say an eye for an eye, we say you have to fight fire with fire.

Consider a legal example that has become all too familiar to litigators: discovery abuse. Both plaintiffs and defendants in high-stakes civil litigation are notorious for abusing the system of civil discovery. Plaintiffs' counsel attempt to bury the other side in interrogatories, aiming self-consciously to make the process so expensive and time-consuming for defendants that they will settle the case favorably. Defendants retaliate in kind by withholding documents on specious legal theories or sometimes by burying the smoking-gun documents in a truckload of paper. While legal scholars disagree about the extent of discovery abuse, everyone agrees that it goes on.⁴ A question I have often asked lawyers is this: If the other side does it, can you retaliate? The legal answer is no. The federal rule against discovery abuse (Rule 26) does not have a "they started it!" exception. But many lawyers think that if the other side starts playing discovery games, they would be hurting their clients to turn the other cheek. The legal rules may be clear, but the moral rules are anything but. In a classic case, a law firm was sanctioned \$325,000 for egregious discovery abuse, but fourteen prominent experts testified that the firm's behavior was ethical, and in more than a decade, only one other court has followed the precedent that this case set.⁵

Our society's moral ambivalence about hardball behavior in highly competitive settings obviously carries over to the business world, because business is as competitive as it gets outside war. Take an example: the 1970 fraud case *United States v. Regent Office Supply*.⁶ This case presented the question whether it is fraud for salesmen to lie their way past secretaries so they can make their pitch to a purchasing agent if their goods are high quality and their prices are honest. In *Regent Office Supply*, the government and the defendant companies stipulated the facts in the mail fraud indictment and in effect asked the court for an advisory opinion on lies told by salesmen to get their foot in the door. The Second Circuit Court of Appeals made no secret that it was annoyed to be asked, as the

opinion puts it, “to give approval or disapproval to the myriad of sales pitches used for various purposes in the diversified world of commerce.” It was an awkward, embarrassing question. The court did not want to condone lying, but it also did not want to put the discount stationery industry out of business. It found the Solomonic solution: it held that deceit by itself does not necessarily amount to fraud, but then proceeded to denounce deceit as “repugnant to ‘standards of business morality.’” I suspect the judges on the panel understood very well that the evidence before them showed the opposite: that these lies are an accepted part of business morality.

I am not suggesting that “everyone does it” is a legitimate moral excuse. Rather, I am suggesting that there are very few consensus moral rules for highly adversarial, competitive settings. That implies a lot of moral uncertainty and ambiguity in a culture as addicted to competition as ours is.

The Cultural Dimension: America’s Love Affair with Winners

This takes me to the second point: the cultural obstacles to dealing with Enron-type ethical meltdowns. The fact is that our culture loves the Fastows and Skillings of the world as long as they succeed. The explanation of success worship goes all the way back to Max Weber’s classic study of the Protestant ethic and the spirit of capitalism. According to Weber, capitalism flourished in religious climates that emphasized the idea that business is a secular calling, just as much a part of the divine plan as religious callings. And in these religious traditions, worldly success was a sign of divine approval. It would be a mistake to place too much weight on the Protestant origins of American capitalism: four hundred years and millions of non-Protestant immigrants have largely effaced the theological specifics of the Protestant ethic. But the cultural residue remains, and it is hard to deny that Americans still worship success and love winners. The employees, managers, accountants, and attorneys who work for the winners are no exception.

More than that, I think it is undeniable that American culture has always had a soft spot in its heart for bad boys who break rules to get results, as long as they do it in style. A favorite Hollywood genre is movies whose heroes are a gang of thieves pulling off an intricate heist: *The Sting*, *Ocean's 11*, all the way down to forgettable summer fluff like *The Italian Job*. True, the thieves usually steal from other bad guys or target the idle rich who have more jewelry than is good for them. But they are still crooks—and we kind of like them. Almost as popular is the Hollywood good guy who breaks rules to get results, from John Wayne in *The Man Who Shot Liberty Valance*, to Stallone in *Rambo*, to *My Cousin Vinny*. The main thing is that they have to be winners, and they have to do it in style. We are willing to forgive a lot when it comes to flamboyant rascals who also happen to be winners. Jesse Ventura parlayed a bad boy image into a governor's mansion. And there is no denying that Enron reveled in a kind of high-octane flamboyant aggressiveness, where top performers got million-dollar bonuses and then joined Skillful for Land Cruiser racing in Australia.⁷

Having a soft spot for bad boy winners seems harmless enough, but the flip side is a little uglier. As a culture, we have little patience with losers. If they did something wrong, we do not cut them the same slack we do for winners. Even if they were blameless, we are unlikely to find them all that appealing. In a fascinating series of experiments, the social psychologist Melvin Lerner discovered that the worse someone is treated, the more likely observers are to rate the victim as an unattractive, flawed person.⁸ Lerner explains this phenomenon as an unconscious attempt to ward off the scary thought that if unfair stuff can happen to her, it can happen to me. We unconsciously disparage the victim in order to find a distinction, some distinction, between her and us in order to reassure ourselves that *we* will not get victimized next.⁹ I find this explanation entirely plausible. Whatever the explanation, though, the experiment provides powerful evidence that we do not tend to find losers beautiful.

I think everyone instinctively understands this, and the implications for business ethics are disturbing. Given the choice between

breaking rules and winning or being a law-abiding loser, you are far more likely to win friends and influence people if you break the rules—especially if you can portray the rules as red tape crying out to be cut. No wonder that Enron executives took the most aggressive accounting positions they possibly could. Pushing rules as hard as you can in order to be a winner is exactly what our culture prizes.

Admittedly, this phenomenon explains the top executives better than the accountants and lawyers who papered the dubious deals. Except for a few celebrated personal injury lawyers, the bar is not known as a haven for flamboyant bad boys, and neither is the accounting profession. Of course, business law has its share of tough guys who would rather be feared than loved, like the famous New York City bankruptcy lawyer who sometimes grabs other lawyers by the necktie to pull their faces into convenient screaming range. But he is not really a flamboyant bad boy. He is merely a jerk.

The accountants' and lawyers' job is to keep the flamboyant bad boys out of trouble. The problem is that when a successful client is flying high, as high as Enron flew, no one wants to be the doomsayer who puts on the brakes. A hundred years ago, Elihu Root, one of the founders of Cravath, Swaine & Moore, said, "The client never wants to be told he can't do what he wants to do; he wants to be told how to do it, and it is the lawyer's business to tell him how."¹⁰ The same ethos permeates large accounting firms. The culture's love affair with bad boy businessmen creates a behavioral echo among the employees whose job is to hold them in check but who may see their real job as guarding the CEO's back.

The Economic Dimension: The Feudal and Socialist Character of American Capitalism

The argument so far has called attention to two important facts: the ethical fact that the basic rules of everyday morality do not have a lot of traction in adversarial or highly competitive settings, and that our culture is more willing to tolerate stylish scoundrels who come out on top than honorable, rule-following losers. We will see the

significance of these conclusions once we turn to the third major challenge to reform.

This is the economic fact that a capitalist economy always produces losers. In one way, this is obvious: competition means that some people win and others lose. But I mean to be pointing to something a bit less obvious. One of the fundamental puzzles of economic theory is why corporations exist in the first place. For a century, economists have pointed out a paradox: corporations are little islands of central planning at the very heart of the market system. Corporations are miniature command economies. Managers gather and process information, set targets, and give their employees instructions. That is perfectly obvious. What makes it puzzling is that we know command economies do not work very well compared with market economies. Why do big corporations exist, then, instead of dissolving into a federation of small independent contractors?

Nobel Prize winner Ronald Coase, the granddaddy of law and economics, answered the question in 1937.¹¹ Coase's explanation was simple and elegant. Even if free-market theory holds that it would be more efficient to structure corporations as internal markets, setting up markets costs money. Sometimes they are worth it, but sometimes it is cheaper and more efficient to settle for a command structure inside the firm. That is why corporations exist.

So far, so good. But the fact remains that centrally planned economies have built-in infirmities. The reason that market economies beat planned economies is that they are better at processing information and responding to change. As Ludwig von Mises and Friedrich Hayek argued almost a century ago, the world changes faster than the planners can gather and process information. Planners are perpetually behind the curve. A central planning system simply cannot respond the way that a decentralized pricing system does.

We must keep this lesson in mind because it constitutes an iron law of economics that applies to corporate executives just as much as it applied to commissars in the dinosaur socialist economies of yesteryear. It does not matter how smart executives are or how fast on their feet. The world around them is faster. Inevitably they set

their quarterly targets based on inadequate or obsolete information. And sometimes reality catches up with them. The economy goes south just when they have placed their bets on a few more golden quarters of going north.

The problem is that a manager who has set an impossible target has usually put his boss and employees on the line as well. Robert Jackall, who authored one of the best studies ever on the moral world of corporate managers, points out that corporate hierarchies are almost feudal in structure.¹² Ask a contemporary corporate manager what his job is, and he is likely to answer, "I work for Joe Smith."¹³ He answers the question by naming his boss, not by offering an impersonal description of his job, a startling echo of Marc Bloch, the great historian of feudal society, who wrote, "To be the 'man' of another man: in the vocabulary of feudalism, no combination of words was more widely used or more comprehensive in meaning."¹⁴

Like the vassalages of medieval Europe, American corporate hierarchies are networks of personal patron-client relations. Managers offer perks and protection in return for loyalty and performance. A manager extracts targets and promises from subordinates and on the basis of those numbers makes promises to his own boss, who does the same with her own boss. When one of those promises fails, it runs the risk of taking down not just yourself but the people above and below you as well. In an odd way, executives fighting desperately to hide their losses and stay in business act in part out of a warped sense of fiduciary obligation to other people in the company. The moral pressure to meet your numbers, combined with self-interest, is overwhelming.

Jackall studied old-economy companies: textile manufacturers and chemical giants. How different are the new-economy companies like Enron? The details are different, but the pressure to set extravagant targets and meet them by hook or by crook (mostly by crook, it appears) was, if anything, even more intense. Enron was structured as a perpetual tournament. New employees picked ten other employees to rate their performance, with all the gamesmanship possibilities that that implies. In addition, management kept a

database where any employee could comment on any other. At the end of the year, all the ratings were put on a bell curve, and those at the bottom were ruthlessly fired. Winners went hiking in Patagonia with Skilling.¹⁵ The heat was on full blast.

What do you do when you cannot keep your promises and meet your targets? You have four choices. One is to pin the blame on someone else. Claiming you did not know what others were doing is the simplest way, but more subtle methods exist as well. For example, Jackall discovered a system of “milking” factories in the chemical giant he studied. A manager struggling to meet his numbers shortchanges essential maintenance on the equipment. Eventually the equipment breaks down in a very expensive way, but by that time the manager has been promoted, and the meltdown happens on someone else’s watch. Top management had little interest in tracking accountability, because in Jackall’s company, everyone knew that the boss got to the top the same way.¹⁶

If you cannot pin the blame on someone else, a second option is to arrange things so the losses fall on your customers, your shareholders, your employees—anywhere but yourself. Michael Lewis’s classic memoir of his years as a 1980s Wall Street bond trader recalls that whenever it came down to the choice between absorbing a loss yourself or passing that loss onto a customer—“blowing up your customer,” as Lewis puts it—traders blew up their customers without thinking twice about it.¹⁷ Enron’s management dumped their own stock while locking their employees’ stock in soon-to-be-worthless 401(k) plans.

Option three, Enron’s main strategy, is to smear on the cosmetics, cover up the losses as long as possible, and hope for a miracle turnaround to pull you from the fire. Rational managers should know better than to rely on miracles. But look at the character traits that make for successful entrepreneurs: boundless optimism, big egos, a taste for risk, unwillingness to take no for an answer. Exactly these traits predispose high-flying CEOs to bet the farm on one last roll of the dice and assume that Lady Luck will smile on

them. Surely the economy will rebound and get you out of your troubles. Only sometimes it does not.¹⁸

These are the three dishonest strategies: blame someone else, shaft someone else, or cover up and hope against hope. The fourth strategy is to accept that you have lost, take your lumps, and move on.

The fourth strategy is not always fatal. During the heyday of the dot-coms, a failed e-business was a badge of honor on your résumé, like a Purple Heart. If you were twenty-five years old and had not burned through your investors' money at least once in some failed e-business, it just showed you were not ambitious enough.¹⁹

But e-business never-never land was obviously the exception. In real business, big business, new economy or old, failure is failure. In that case, given the choice between cheating, covering up, or watching your career evaporate, it is fanciful to expect that executives will seriously entertain the last option; and unfortunately, the others are dishonest. Remember my previous arguments: a powerful strain in our culture admires rogue winners more than honest losers, and in hypercompetitive settings, everyday morality does not give firm guidance. What we now see is that the failures that drive executives to cheat and cover up are built into the very nature of a corporation, which is a planned economy that cannot avoid placing high-risk bets. Put these three factors together, and you have a recipe for scandals. The conclusion seems unavoidable: the crooks, like the poor, will always be with us.

The Psychological Dimension: Cognitive Dissonance and Moral Compass

But none of this explains our original puzzle of why the crooks continue to think they are not crooks. Here social psychology offers an answer. The basic reason is cognitive dissonance. Whenever our conduct and principles clash with each other in a way that threatens our self-image as an upstanding person, the result is a kind of inner tension—dissonance. And dissonance theory tells us that

wired into us is a fundamental drive to reduce dissonance. How do you accomplish that? Obviously, you cannot change your past conduct. Instead, you change your beliefs. That is what fifty years of research have taught. In situation after situation, literally hundreds of experiments reveal that when our conduct clashes with our prior beliefs, our beliefs swing into conformity with our conduct, without our noticing that this is going on.

In one classic dissonance experiment, subjects were asked to perform a boring, repetitive task: rotating screws in holes of a peg-board. Afterward they were paid to tell the next student waiting to perform the same task that it was really very interesting. This is “counterattitudinal advocacy,” known more colloquially as “lying.” Behaviorists or economists might predict that the higher the pay, the more likely the subjects were to start believing what they told the other students. But dissonance theory makes the opposite prediction. Deceiving your fellows for little or no benefit to yourself creates dissonance, and so it was the low-paid advocates who internalized the belief they were advocating. That is what the experiments confirmed.²⁰ Apparently when my own behavior makes me, in Saint Augustine’s words, “a great riddle to myself,” I solve the riddle in the simplest way: *if I said it, I must believe it; if I did it, I must think it is right*. All this, I want to emphasize, goes on unconsciously.

How can this happen? The answer, as any psychiatrist will tell you, is that we do not automatically know our own beliefs. Instead, we figure them out by examining our own behavior. If I ate that piece of chocolate cake, I guess that means I like chocolate cake. If I covered up losses with smoke-and-mirrors accounting, I must think that smoke-and-mirrors does not really count as a cover-up. And what if this contradicts what I have always been taught and always thought I believed in the past? I tell myself that only a fanatic refuses to learn from experience—and I am no fanatic.

One surprising result follows. Most of us are inclined to think that the big problem in the ethics scandals is lack of integrity on the part of the principals. But if integrity means doing what you think is right, these men and women had integrity to burn. They got it

the cheap way: once they did things, they believed those things were right. Integrity does not help very much when you are in the grips of self-deception.²¹

The problem is not simply that we unconsciously adjust our moral beliefs so they inevitably make us look good. Psychologists have also shown that our judgment is deeply affected by the people around us. Show a group of people two lines, and if eleven of them say that the shorter line is longer, the twelfth is likely to see it that way as well.²²

The same thing is true with moral judgment, and that is the special problem that organizational settings create: you are always in the room with eleven other people. In the 1960s, a young woman named Kitty Genovese was assaulted and murdered in Queens, New York, as dozens of people in their apartments witnessed the assault. Not a single person called the police. The media were filled with dismay at this sign of social indifference. But two social psychologists had a different explanation: they conjectured that groups of people are usually less likely to help out in emergencies than single individuals are. To test their hypothesis, they had subjects fill out questionnaires in a room. While a subject worked on the questionnaire, a staged emergency happened—either the sound of crashing equipment and screams from the next room or smoke billowing into the room where the subject was sitting. The results were remarkable: when subjects were by themselves, most responded quickly to the emergency. But when another person sat next to them and failed to respond, they mimicked the other person and did nothing themselves. Evidently we respond to unusual situations by first checking to see how other people respond. And just as we take cues from the other person, he or she takes cues from us. We reinforce each other, sometimes in disastrously wrong beliefs. Pedestrians stepping around the body of a homeless man collapsed in the street may not be heartless or callous. They may simply be taking their cues from each other. The evidence suggests that if they were alone when they encountered the unconscious man, they would stop to help.²³

The conclusion is disturbing. Our moral compass may point true north when we are by ourselves; but place us next to a few dozen other compasses pointing east, and our needle falls into line with theirs—and contributes to the magnetic field influencing the needles of other people's compasses.

The Kitty Genovese effect goes a long way toward explaining why no one blew the whistle on the corporate scandals: insiders simply took their cues from each other. They saw everyone else acting as though everything was perfectly all right, and they acted that way themselves, each reinforcing the others' passivity. But it is also important to realize that cognitive dissonance and the social nature of perception fit together. Both ideas are variations on a single theme: that the human conscience has a tendency to take its cues from the situation we are in, a situation defined partly by our own past actions and partly by the actions of the people around us. No doubt being wired this way served some important purpose for our evolutionary ancestors at the dawn of time. But it can lead to tragic results when we stumble into a social situation that seems to demand morally compromising behavior.

The desire to fit in with those around us helps explain how lower-level employees, such as lawyers and accountants, become fatally implicated in corporate wrongdoing. In large organizations, decisions get parceled out among many people, and every piece of work is the product of many hands. Information filters in piecemeal, a little at a time. As a result, decisive moral moments are not obvious. They are not really moments at all. They do not scream out, "You've reached the crossroads!" Changes come gradually, like walking in a very large circle. Not only that, the consequences of decisions are often nearly unfathomable. And working in teams, it is seldom obvious whose responsibility any choice ultimately is. It may be everyone's or nobody's at all. The ground is fertile for the Kitty Genovese effect.

No one had a keener eye for the moral pitfalls of bureaucratic organizations like big businesses than C. S. Lewis, who once warned an undergraduate audience, "To nine out of ten of you the choice

which could lead to scoundrelism will come, when it does come, in no very dramatic colours. Obviously bad men, obviously threatening and bribing, will almost certainly not appear.”²⁴ Instead, the problem starts the first time that your supervisor asks you to bend a rule for the company’s good. “Next week,” Lewis tells us, “it will be something a little further from the rules, and next year something further still, but all in the jolliest, friendliest spirit. It may end in a crash, a scandal, and penal servitude; it may end in millions, a peerage and giving the prizes at your old school. But you will be a scoundrel.”²⁵ And dissonance theory suggests that you will never even notice.

Suppose, for example, that a chief financial officer calls in an in-house lawyer, and a consultant, and an accountant, and says that he would like to structure some deals that will help push accounting losses off the books. (Think Andrew Fastow.) The lawyer may not know off the top of her head whether there is a legal way to do it, but that is what she gets paid to figure out. The last thing the lawyer thinks about is that an ethical rule forbids her from counseling or assisting in a client fraud. The conversation is about business goals, not about fraud (such an ugly word!). The lawyer, accountant, and consultant accept the business goal of making business losses vanish from the balance sheets, and reason backward to whatever complicated structure it will take to achieve it. So what if the law requires a proper business purpose other than sanitizing an annual statement? The whole lawyering problem is figuring out some way to package the client’s goal as a proper business purpose, although that might require drifting into the gray zone at the margin of the law. Transparency avoidance feels to the lawyer, accountant, and consultant like little more than a formalistic game, not much different from tax avoidance.

The trouble is that transparency is what the law requires, and transparency avoidance bears an uncanny resemblance to fraud. By the time the smoke clears, the CFO may be looking at ten years in jail and the *Wall Street Journal* will be doing exposés of the deals. Or maybe not, as Lewis says. Maybe you will all get rich. You will still be a scoundrel. But rich or poor, while the deals are under construction,

from the professionals' point of view, it all looks like an interesting challenge, nothing more. Charles Davidow, a Washington lawyer involved in the Powers Committee's investigation of Enron, reports that when he talked with the lawyers about all the special-purpose entities that Fastow created, they were proud of their handiwork, not ashamed. Yet Neal Batson, the Enron bankruptcy examiner, has found legal malpractice and violations of fiduciary duty on the part of Enron's general counsel and two Houston law firms. All of it is documented in his final report, two hundred pages spent unraveling transactions of such incredible complexity that even the lawyers who papered them admitted that they did not understand what they were doing. Or maybe they were simply saying they did not understand because it is better to admit that you were engaged in malpractice than that you did know what you were doing and were committing fraud.

Nothing demonstrates the power of organizational roles to distort conscience more strikingly than the famous Stanford Prison Experiment (see Chapter Five in this volume). Male college students were divided randomly into "guards" and "inmates" in a mock prison for a two-week role-play experiment. In less than a day, the guards began bullying and brutalizing the inmates, and the inmates started developing the depression, uncontrollable weeping, rage, and anxiety of real-life prisoners. By Day Two, the prisoners revolted, and the guards put down the rebellion by blasting them with fire extinguishers. By Day Seven, the experimenters decided they had to terminate the experiment early before anyone was permanently damaged.²⁶

The attitude changes in the subjects almost defy belief. One guard wrote in his diary before the experiment, "As I am a pacifist and non-aggressive individual, I cannot see a time when I might maltreat other living things."²⁷ By Day Five, the same student wrote: "This new prisoner, 416, refuses to eat. That is a violation of Rule Two: 'Prisoners must eat at mealtimes,' and we are not going to have any of that kind of shit. . . . Obviously we have a troublemaker on our hands. If that's the way he wants it, that's the way he

gets it. We throw him into the Hole ordering him to hold greasy sausages in each hand. After an hour, he still refuses. . . . I decide to force feed him, but he won't eat. I let the food slide down his face. I don't believe it is me doing it. I just hate him more for not eating."²⁸

The power of situations to wreak havoc on conscience is hard to believe, but in experiment after experiment, the evidence is irrefutable. Consider the famous Milgram shock experiments.²⁹ Two people out of three will administer what they think are near-fatal electric shocks to an innocent volunteer if an experimenter orders them to do so in the name of scientific research. But not a single person who heard the experiment described believed that they would do it. Apparently the situation takes over when we are actually in it. Give the shocker a teammate, and the result is even more dramatic: if the teammate will not administer the next shock, only 10 percent of people obey the experimenter. But if the teammate goes along with the next shock, compliance shoots up to 90 percent. Social pressure affects conscience to an extent few of us would believe possible.

In a corporate culture, the incredible plasticity of conscience that social psychology reveals creates perhaps the biggest challenge to reformers. If you cannot trust your own conscience to tell you the difference between right and wrong, how are you supposed to do what is right? Remember what we have learned so far: the stakes in business are high, the corporate culture puts out powerful cues, the wider culture reinforces them, and no settled guidelines about morality in competitive settings push hard in the opposite direction. It should hardly astonish us that the result is ethical self-deception on a grand scale.

It may sound as though I am saying dishonesty is a social disease that is nobody's fault. That is not my intention at all. The goal is to understand, not to make excuses. In fact, I am not a great believer in the idea that to understand all is to forgive all. People make their choices under constraints, including psychological ones, but in the end, all sane adults are still accountable for the choices they make. We should never forget that not everyone gives in to social pressures.

If my conscience lets me down, the fact remains that it is *my* conscience, not the company's conscience and not society's conscience.

Lessons for Leaders?

It is customary to end on an optimistic note. My basic message has been that ethics, culture, economics, and psychology all pose tremendous challenges to efforts at corporate reform. Changing the rules of conduct will not necessarily change the conduct, because rules alone will not change the ethos, the culture, the economics, or the psychology that make up the moral world of corporate America. People who think there are magic vaccines or magic bullets are fooling themselves.

But challenging is not the same as impossible. Even if Wall Street does have new scandals to deal with, the insider trader scandals of the 1980s have not recurred. The savings and loan crisis is history. Messes can be cleaned up, even if we know that the crooks will always be with us, and sometimes they will not even realize that they are crooks.

What advice can I offer to managers, accountants, and lawyers in corporate settings? Is it really true that forces you are barely aware of can disconnect your conscience as thoroughly as the Stanford prison guards or the administrators of electric shocks? If the answer is yes, then how can anyone deal with forces they are barely aware of?

I have three suggestions.³⁰ First, all the experimental studies suggest that cognitive dissonance disconnects the wires of conscience slowly and one step at a time. That is what C. S. Lewis suggests, and I am certain that Lewis got it right. We get cooked like the legendary frog who does not notice that he is being boiled as long as the water is heating up slowly. For that reason, it becomes critically important to give ourselves some kind of warning. Set yourself some telltale sign—something that you know is wrong. Write down on a piece of paper, “I will never backdate a document.” Or “I will never let a coworker get blamed for something that was my fault.” Or “I will never paper a deal that I don't under-

stand.” Or “I will never do anything that I couldn’t describe to my dad while looking him in the eye.” Pick your telltale sign carefully, and the moment the alarm rings, evacuate the building.

Second, we may take a cue from Stanley Milgram’s electric shock experiments. When Milgram debriefed his compliantly murderous subjects afterward, he asked them whose fault the shocks were: the scientist who ordered the shocks, the victim who provoked them by getting wrong answers on a test, or the subject who administered them. Not too surprisingly, the compliant subjects usually blamed the other two (while the defiant subjects, who refused to follow murderous orders, took on themselves primary responsibility for their conduct).³¹ My advice, then, is to notice when you are blaming someone else. Right or wrong, the very fact that you are blaming it on the CFO or the accountant is a telltale sign that your own conscience is on the road to perdition.

Finally, I suggest that a certain amount of self-doubt and self-skepticism is not such a bad thing. Moral meltdowns happen when the reactor overheats. There is a kind of euphoria that comes from working on big cases, big deals, for high-energy businesses and high-powered clients. Intoxicating though it may be, it is a bad idea to trust euphoria. My version of Socrates’ “know yourself!” is “doubt yourself!” This is hard advice in a nation that admires self-confident, don’t-look-back leaders. “Doubt yourself!” sounds like a recipe for neurosis. But without some healthy skepticism, the temptation to take your cues from the client-executive with the most hubris may be unavoidable. Icarus makes a terrible role model.

