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PART I

INTRODUCTION TO BUSINESS ETHICS

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CHAPTER 1

INTRODUCING STRAIGHT TALK ABOUT MANAGING BUSINESS ETHICS: WHERE WE'RE GOING AND WHY

INTRODUCTION

This book began with a fortuitous phone call back in 1987 that resulted in a friendship. Linda Treviño, professor of organizational behavior at Penn State University, noticed a small article on the front page of *The Wall Street Journal.* The piece described a game to teach business ethics that had been developed at Citicorp, the nation's largest commercial bank at the time. As someone who teaches ethics to business students, and who cares deeply about preparing students to think about ethics and manage their conduct in corporations, she decided to find out more about Citicorp's game. She called the game's developer, Kate Nelson, who was then a vice president and head of human resources communications at Citicorp. The rest, as they say, is history.

We began a dialogue and, over time, discovered that we had a lot in common. We had both learned that many students—whether on a campus or in a corporation—felt intimidated by the subject of ethics. We had both listened to their frustrations: "Why does this have to be so mysterious? This is hopeless; there's nothing we can do about the behavior of people who report to us. Give us some guidance. Tell us what we should be doing. Don't frame business ethics in terms of Aristotle. Tell us what will be expected of us at General Electric, Ford, and Bank of America. Advise us on what to do when something goes wrong, and how to prevent that from happening." In many ways, this book is a response to those concerns.

Before writing the book, however, we had to make several decisions. First, would such a big undertaking be a worthwhile effort? Could we take the mystery out of business ethics? Could we address the cynicism that we had both encountered? Did we have something unique to say? Would it make any difference? We became convinced that we could write a book that would teach something unique, and that we could do it in a fun and practical way.

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TAKING AWAY THE MYSTERY

We want to take the mystery out of business ethics. In other situations (romance, for example?) mystery may stimulate interest. But mystery only serves to make ethics inaccessible to most students and managers. For most people, the word "ethics" means something esoteric and far removed from reality. But organizational ethics isn't mysterious. It's about *us*—people making decisions in organizations every day. All of us belong to organizations. We're members of schools, fraternities, sororities, clubs, sports teams, religious organizations, and work organizations. As members of these organizations, we frequently find ourselves facing ethical dilemmas—*situations concerning right and wrong where values are in conflict*.

As a student, you may have observed a friend cheating and wondered what to do. Which is the more important value—sticking by a friend, or complying with the honor code that requires you to turn in a cheater? In a work setting, perhaps you've been tempted to do something you believe is wrong (for example, lie to a customer about a delivery date) because your boss encourages you to focus on short-term financial results. Which is more important—honesty to the customer or adherence to your supervisor's expectations? Loyalty is an important value for most of us. But, what happens when one of your employees (a good friend) hasn't been meeting agreed-on performance expectations for some time? Which is more important—loyalty to the organization or loyalty to your friend? All of these examples represent values in conflict. All are ethical dilemmas.

Until about fifteen years ago, so little was known about the topic of organizational ethics that a book like this probably couldn't have been written. With rare exceptions, knowledge was limited to a few surveys saying that, yes, ethics is a problem in organizations. But in recent years, researchers have begun to rigorously study organizational ethics as social science. Although there is much left to learn, we're beginning to understand the factors that influence ethical conduct in organizations, and what works and what doesn't in ethics management. That's the kind of information we'll share with you so that you'll understand yourself and others better, and you'll be a better manager who will understand how to influence others' behavior in an ethical direction.

MOVING BEYOND CYNICISM

Cynicism has become an epidemic throughout society and is manifested in a "contemptuous mistrust" of business leaders.[1] Irving Kristol, writer, educator, and editor, said, "One of the reasons the large corporations find it so difficult to persuade the public of anything is that the public always suspects them of engaging in clever public relations instead of simply telling the truth."[2] Such cynical attitudes toward business have been exacerbated by repeated organizational restructurings, accompanied by high executive compensation and layoffs.[3] Many believe that executives are not

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being held accountable for bad management decisions and the pain they inflict on employees as a result. Recent business scandals and the accompanying questions about the accuracy of financial statements and the trustworthiness of investment analysts have contributed to widespread cynicism about business ethics.

In 2000, the Ethics Resource Center, a nonprofit educational organization, conducted its National Business Ethics Survey, a nationally representative survey of 1,500 U.S. employees. The researchers found that more than one of every eight employees reports feeling pressure to compromise ethical standards. And most of the employees who feel such pressure say that the pressure comes from supervisors and top management.[4]

Since the classic studies of business ethics conducted in the 1960s and 1970s,[5] managers have repeatedly reported their own cynicism—the pressure they feel to compromise their personal ethical standards on the job—and they're even more cynical about their peers' ethics than their own.[6] They blame business's preoccupation with gain, the lack of reinforcement of ethical behavior, competition, the existence of generally accepted unethical practices in certain industries, a sense that only results are important to superiors, and the ineffective enforcement of ethics codes. Among all managers, those at lower levels have reported feeling the most pressure to compromise their ethics.[7]

Many of our readers are business school students, the future managers of business enterprises. Surveys suggest that many business students believe that they'll be expected to check their ethics at the corporate door or that they will be pressured to compromise their own ethical standards in order to succeed.[8] The entertainment industry may be partially responsible for students' cynical view of American business. Think about the depiction of business and its leaders in movies and on television. The Media Research Center conducted a survey of 863 network TV sitcoms, dramas, and movies from 1995 to early 1997. Nearly 30 percent of the criminal characters in these programs were business owners or corporate executives. Entrepreneurs were represented as drug dealers (*Beverly Hills, 90210*), kidnappers (*Nash Bridges*) or sellers of defective gear to the military.[9] *Fortune* magazine called this "the rise of corporate villainy in prime time."[10] More recent movies with a negative message about corporate America include *Civil Action, The Insider,* and *Erin Brockovich.* Academic research on the representation of business in movies suggests that cynicism toward American business increased after study participants viewed the film *Roger & Me,* which depicted ruthless plant closings and layoffs at General Motors.[11] Imagine the cumulative effect of viewing countless movies and television programs that portray business as corrupt and business leaders as ruthless and unethical.

Surely, the factor that has contributed the most to student cynicism in recent years is the highly visible behavior of some of the nation's leading corporations and executives whose activities have garnered so much space in the business press and on the evening news. How do you watch hour after hour of congressional hearings into the activities—clearly unethical and likely illegal—of Enron and not walk away a bit jaded? How can you not be cynical when you read about the finance professionals at Merrill Lynch who laughed it up over the stocks they were trashing to one another on e-mail as they were touting them to clients? How can you help but wonder about the

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ethics of business when you read about pharmaceutical companies bribing doctors to prescribe their products with all-expense paid trips to exotic locations? In 2001 and 2002, all you had to do was read the newspaper to feel cynical, and business school students are no exception.

An Aspen Institute study of over 2,000 MBA students who graduated in 2001 from 13 leading international business schools provides insight into MBA students' attitudes. The three-wave survey followed the students from entry into their graduate programs through graduation. It found that MBA students anticipate facing difficult values conflicts in their jobs, suggesting cynicism about ethics in the workplace. Most said that they would leave a company whose values were inconsistent with their own rather than speak up or try to promote change from within. Although about two-thirds of the students said that operating according to a strong ethical code was the mark of a well-run company, surprisingly only about ten percent of students said that a company's ethical standards would be an important factor when considering job offers. Students overwhelmingly named challenging and diverse job responsibilities as the most important factor in job selection.[12]

For our cynical readers, we want to help by doing two things: (1) empowering managers with the tools they need to address ethical problems and manage for ethical behavior and (2) providing positive examples of people and organizations who are "doing things right." We agree with Coach Joe Paterno, Penn State's legendary football coach whose program is known for integrity. He said this in response to our questions about cynicism: "I don't care what cynical people say. I don't really pay attention. These are small people who … don't have the confidence or courage to do it the right way. And when they see someone doing it the right way, deep down they feel guilty. They'd rather say that it can't be done … that everybody cheats. I hear that all the time. 'Fine,' I say. 'You think what you want.' I know what I do. People around me know. You've got to just run your organization. You can't worry about what these cynical people say."

Finally, we can't leave a discussion of cynicism without talking about the events of September 11, 2001, and their potential effect on attitudes toward American business. While the business scandals of 2001–2002 left many cynical, the events of September 11, 2001, also brought out the best in many individuals and businesses. All of us have read about the care, compassion, and assistance given by countless American firms to those who were harmed by the terrorist attacks. Few firms were hit as hard as Sandler O'Neill & Partners, a small but very profitable Wall Street investment bank that lost 66 of its 171 employees on September 11, including two of the firm's leading partners. The firm's offices had been on the 104th floor of the World Trade Center. Despite its dire financial straits, the firm sent every deceased employee's family a check in the amount of the employee's salary through the end of the year and extended health-care benefits for five years. Bank of America quickly donated office space for the firm to use. Competitors sent commissions their way and freely gave the company essential information that was lost with the traders who had died. Bigger Wall Street firms took it upon themselves to include Sandler in their deals. The goal was simply to get Sandler some money and back on its feet.[13] This is only one of the many stories that point to the good that exists in the heart of American

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business. In this book, we will offer some of these positive stories to counterbalance the mostly negative stories portrayed in the media.

Tools to Manage Unethical Behavior

With so much focus on negative events, people can become cynical because they feel helpless to influence these events. They feel overwhelmed by the pressures they perceive to be pushing them and others inexorably toward self-interested behavior at the expense of their higher aspirations. The "mystery" of organizational ethics contributes to this feeling of helplessness. How can people do anything about something they don't understand? We hope to dispel this feeling of helplessness, and simultaneously reduce the cynicism by offering conceptual and practical tools for managing ethics.

Focus on the Positive, the Ethical, and the Socially Responsible

We would also like to focus on the positive and the ethical in people and in organizations. We're not Pollyannas, but we see plenty of positive evidence and real-world examples that inspire us to keep ourselves and our organizations moving in a positive and ethical direction.

Ethical conduct is alive and well at work. In an *Industry Week* survey, three out of four respondents claimed that their company's code of ethics, or ethics in general, actually means something to them in their day-to-day work.[14] Similarly, the Ethics Resource Center's 2000 survey of business ethics found that about seventy percent of respondents from for-profit organizations have *never* observed conduct that either violated the law or the organization's own ethics standards. Only six percent of employees said that they had observed such misconduct often, and only about five percent said that they frequently experience pressure to compromise their company's ethical standards in order to achieve business objectives. More than seventy percent of employees said that the values of honesty, respect, and trust are applied frequently in their workplace. Finally, about eighty-five percent of employees said that supervisors and executives in their organization model ethical business behavior. Clearly, most employees are having a positive ethical experience at work. You might want to conduct your own survey among the people you know. Ask them these questions and see what they say. If your findings are similar to those reported above, perhaps you will begin to question the widespread cynicism conveyed by the media and pay more attention to the many examples of positive and ethical business behavior.[15]

From a social responsibility perspective, many organizations are acknowledging that they're not islands, isolated from the larger communities that surround them. In fact, they know that they function best within healthy communities. The leaders of these organizations have been referred to as "enlightened capitalists."[16] They reject the notion that business's sole responsibility is to maximize profits. Although they're true believers in the free market system, these "enlightened capitalists" acknowledge that the free market system can also produce negative side effects such as pollution and "poverty-amid-plenty."[17] They believe that it's better for business to voluntarily help

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solve these problems than to be forced to do so by the government. One corporate lawyer estimated that one new law results in 200 to 300 pages of regulations, all of which have to be followed by the corporations affected by the law. Furthermore, enlightened business leaders argue that business has a responsibility to address certain social problems because of its unique abilities, and because a healthy social environment is a prerequisite for a healthy business environment. Therefore, they maintain that when a business serves its multiple stakeholders best (i.e., customers, employees, the community—essentially, any party who has a stake in what the organization does and how it performs), it also serves its shareholders best in the long run.[18]

IS BUSINESS ETHICS JUST A FAD?

Management researchers began to study business ethics during the 1960s by conducting surveys of managers' attitudes toward business ethics.[19] Some thought that business ethics was just a fad then (related to media attention to the burgeoning consumer rights movement, for example) and that interest in the topic would quickly fade. But research has found that management fads generally last only about 10 years,[20] and interest in business ethics has climbed for more than 40 years. This interest is fueled in part by regular media coverage of ethical lapses in the business community. Examples include the federal savings and loan disaster, Wall Street insider trading scandals, Archer Daniels Midland's price fixing, Denny's and Texaco's racial discrimination, Mitsubishi's sexual harassment, the tobacco industry's nicotine-spiking of cigarettes, the Ford/Firestone tire and automobile safety controversy, the Enron/Arthur Andersen debacle, WorldCom, Adelphia (unfortunately, the list is long).

But ethical lapses aren't limited to business; such problems affect every institution of our society. For example, in the 1970s the Watergate scandal focused attention on ethical problems in government. This focus continued with questions about the faulty decision making that led to the Challenger disaster, check-writing scandals in Congress, Irangate, Whitewater, sexual harassment in the military, questionable election fund-raising tactics, and the sex scandals in the Clinton White House.

Religious, educational, philanthropic, and sports organizations haven't been immune. Catholic priests (and other religious leaders) have sexually abused children, students have cheated on exams and plagiarized papers, philanthropic organizations have spent contributors' funds irresponsibly, student athletes have run afoul of National Collegiate Athletic Association (NCAA) rules, and Olympic judges have been accused of fixing scores. Although we don't want to leave it to the media to define ethical business practice, the media's continuing interest in ethical issues suggests that ethics isn't just a fad.

Articles and books have proliferated in the academic and professional press, suggesting that these communities are becoming increasingly interested in ethics as well. And organizations of every kind are addressing the "ethics problem" in a number of ways. Many of them are establishing high-level ethics committees, drafting codes of ethical conduct, and conducting ethics training programs. Such ethics initiatives have increased quite steadily since the 1970s.[21] The Ethics Resource Center 2000 survey

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found that 79 percent of respondents reported that their companies have a written set of ethical standards (compared with 60 percent in 1994).[22]

The wider American community also seems very interested in ethics and values these days. An ethicist writes a column for the Sunday *New York Times* and appears regularly on National Public Radio. Character education has also been growing in the public schools with multiple public and private initiatives. So, while there is certainly a focus on the negative—the ethical lapses—there also seems to be a need in our society to focus on the positive. We want to celebrate ethical "heroes" in private and public life and we are anxious to discuss and teach our children positive ethical values.

As we've seen, interest in ethics reflects the reality of life in all sectors of our society, and it has continued to grow over the past 40 years. Of course, ethical lapses are a part of human behavior that's here to stay. That's one reason why we wrote this book. If the ethics "problem" isn't just a fad, then managers have an ongoing concern that they must anticipate, understand, and manage. We also believe that the interest in ethics as a positive force hasn't been adequately tapped in the business world. Although they do not get as much media attention, there are many positive examples of business people doing good and doing well. We want to share those too.

CAN BUSINESS ETHICS BE TAUGHT?

Before launching a book-writing effort, we also needed to be convinced that we could actually teach our readers something. Despite growing interest in ethics and ethics training, dissenters from both the business and academic communities have raised questions about whether ethics can or should be taught. Felix Rohatyn, a noted New York investment banker, said that ethics can't be taught past the age of 10. Lester Thurow, former dean of the Massachusetts Institute of Technology's Sloan School of Management, echoed this view when he stated that business schools can do little if students haven't already learned ethics from their families, clergy, previous schools, or employers.[23]

In the wake of the insider trading scandals of the 1980s, Thurow and a chief operating officer of a large Wall Street investment firm claimed on a television news program that educational institutions or business organizations could have done little about the unethical individuals who participated in insider trading. These people just hadn't been raised with the proper values.

If they're correct, ethics education is a waste of time and money. "Bad apples" are just tainted people who can't be trained or rehabilitated. Therefore, resources should be devoted to identifying and discarding bad apples, not educating them. We disagree, and the evidence is on our side.

Aren't Bad Apples the Cause of Ethical Problems in Organizations?

In part, the belief that ethics can't be taught is driven by the assumption that ethical problems are caused by such "bad apples" and that unethical behavior in organizations can be traced to a few bad apples that spoil it for the rest of us. According to this

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belief, people are good or bad when they join organizations. The organizations are powerless to change these folks, so they should focus on hiring good people and weeding out the bad ones who somehow slip through the selection process.

This bad apple idea[24] is appealing in part because unethical behavior can then be blamed on a few bad individuals. Although it's unpleasant to fire people, it's relatively easier to search for and discard a few bad apples than to search for some organizational problem that caused the apple to rot.

Garry Trudeau's (1987) Doonesbury cartoon treatment of Dennis Levine, who was convicted of insider trading in the 1980s, reflected this bad apple view. In the cartoon, Levine is totally unresponsive to an ethics counselor's attempts to appeal to his sense of morality.

Scot, Ethics Counselor: "… and since everyone else was doing it, you figured using insider information was okay?"

Levine: "Yeah, like the golden rule says."

Scot: "Uh, the golden rule? Which golden rule is that?"

Levine: "Do unto others before they do it unto you first."

Scot: "Okay, ethically, you seem to be a little rusty … Why don't we review a few basic moral questions, okay? What's the opposite of wrong?"

Levine: "Poor."

Trudeau portrays Levine as a bad apple who is totally unresponsive to the counselor's attempt to appeal to some basic understanding of right and wrong. Trudeau's Levine just doesn't "get it." Later, however, in an article he wrote for *Fortune* magazine,[25] the former Wall Street trader acknowledged that he knew he was doing something very wrong and deserved the punishment he received. You'll read more about Dennis Levine in Chapter 7.

Despite the appeal of the bad apple idea, "character" is a poorly defined concept, and when people talk about it, they rarely define what they mean. They're probably referring to a complex combination of traits that are thought to guide individual behavior in ethical dilemma situations. If character guides ethical conduct, training shouldn't make much difference because character is thought to be relatively stable, meaning that it's difficult to change, persists over time, and guides behavior across different contexts. Character develops slowly as a result of upbringing and the accumulation of values that are transmitted by schools, families, friends, and religious organizations. Therefore, the idea is that people come to educational institutions or work organizations with an already defined good or poor character. Good apples will be good and bad apples will be bad.

In fact, people do have predispositions to behave ethically or unethically (we'll talk about these in Chapter 5). And sociopaths can certainly slip into organizations with the sole intent of helping themselves to the organization's resources, cheating customers, and feathering their own nests at the expense of others. They have little interest in "doing the right thing." When this type of individual shows up in your organization, the best thing to do is to discard the bad apple and make an example of the incident to those who remain.

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But discarding bad apples generally won't solve an organization's problem with unethical behavior. The organization must scrutinize itself to determine if there's something rotten inside the organization that's spoiling the apples. Although all the facts are not yet in, information to date suggests that both Enron and Arthur Andersen had cultures that encouraged unethical behavior. Enron allowed (and perhaps encouraged) unethical behavior throughout the organization, and Arthur Andersen's actions with a series of clients is still under scrutiny from law enforcement and regulatory agencies. You'll learn in this book that most people are not guided by a strict internal moral compass. Rather, they look outside themselves—to their environment—for cues about how to think and behave. This is particularly true when circumstances are ambiguous or unclear as they are in many ethical dilemma situations. At work, the organizational culture transmits many cues about how one should think and act. Executive leadership, norms, role models, reward systems, and many other components of the management context (Chapter 7) and organizational culture (Chapter 9) combine to let people know what's expected. Although much more subtle, this is as much an educational process as explicit ethics training.

So, our view is that apples often turn bad because they're spoiled by "bad barrels"—that something in the organization not only condones, but may even expect, unethical behavior. These are not bad folks to begin with. But their behavior can easily turn bad if they believe that their boss or their organization expects them to behave unethically. In this view, an organization that's serious about supporting ethical behavior and preventing misconduct must delve deeply into its own management systems and cultural norms and practices to search for systemic causes of unethical behavior. Management must take responsibility for the messages it sends or fails to send about what's expected. If ethics problems are rooted in the organization's culture, discarding a few bad apples without changing that culture isn't going to solve the problem. An effective and lasting solution will rely on management's systematic attention to all aspects of the organization's culture and what it is explicitly or implicitly "teaching" organizational members.

This question about the source of ethical and unethical behavior reflects the broader "nature/nurture" debate in psychology. Are we more the result of our genes (nature) or our environments (nurture)? Most studies find that behavior results from both nature *and* nurture. So, when it comes to ethical/unethical behavior, the answer is not either/or, but *and.* Individuals do come to organizations with predispositions that influence their behavior, but the work environment can also have a large impact.

Shouldn't Employees Already Know the Difference between Right and Wrong?

A belief associated with the good/bad apple idea is that any individual of good character should already know right from wrong and should be able to be ethical without special training—that a lifetime of socialization from parents and religious institutions should prepare people to be ethical at work. You probably think of yourself as an individual of good character. So, think about the following real dilemma.

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You're the VP of a medium-sized organization that uses chemicals in its production processes. In good faith, you've hired a highly competent scientist to ensure that your company complies with all environmental laws and safety regulations. This individual informs you that a chemical the company now uses in some quantity is not yet on the approved EPA list, although it's scheduled to be placed on the approved list in about three months because it's been found to be safe. You can't produce your product without this chemical, yet regulations say that you're not supposed to use the chemical until it's officially approved. Waiting for approval would require shutting down the plant for three months, putting hundreds of people out of work, and threatening the company's very survival. What should you do?

The solution isn't clear, and good character isn't enough to guide decision-making in this case. As with all ethical dilemmas, values are in conflict here—obeying the letter of the law versus keeping the plant open and saving jobs. The decision is complicated by the fact that the chemical has been found to be safe and is expected to be approved in a matter of months. As in many of today's business decisions, this complex issue requires the development of occupation-specific skills and abilities. For example, some knowledge in the area of chemistry, worker safety, and environmental laws and regulations would be essential. Basic good intentions and a good upbringing aren't enough.

James Rest, a scholar in the areas of professional ethics and ethics education, argues convincingly that "to assume that any 20-year-old of good general character can function ethically in professional situations is no more warranted than assuming that any logical 20-year-old can function as a lawyer without special education."[26] Good general character (whatever that means) doesn't prepare an individual to deal with the very special ethical problems that are likely to arise in one's career. Individuals must be trained to recognize and solve the unique ethical problems of their particular occupation. That's why many professional schools (business, law, medicine and others) have added ethics courses to their curricula and why most large business organizations now conduct ethics training for their employees.

So, although individual characteristics are a factor in determining ethical behavior, good character alone simply doesn't prepare people for the special ethical problems they're likely to face in their jobs or professions. Special training can prepare them to anticipate these problems, recognize ethical dilemmas when they see them, and provide them with frameworks for thinking about ethical issues in the context of their unique jobs and organizations.

Aren't Adults' Ethics Fully Formed and Unchangeable?

Another false assumption guiding the view that business ethics can't be taught is the belief that one's ethics are fully formed and unchangeable by the time one is old enough to enter college or a job. However, moral psychology research has found that this is definitely not the case. Children and young adults develop moral judgment through a complex process of social interaction with peers, parents, and other significant persons, and this development continues at least through young adulthood. In fact,

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young adults in their twenties and thirties in moral development educational programs have been found to advance in moral reasoning even more than younger individuals.[27] Given that most people enter professional education programs and corporations as young adults, the opportunity to influence their moral reasoning clearly exists.

Business school students may need ethics training more than most because research has shown they have ranked lower in moral reasoning than students in philosophy, political science, law, medicine, and dentistry.[28] Also, undergraduate business students and those aiming for a business career have been found to be more likely to engage in academic cheating (test cheating, plagiarism, etc.) than students in other majors or those headed toward other careers.[29] At a minimum, professional ethics education can direct attention to the ambiguities and ethical gray areas that are easily overlooked without it. Consider this comment from a 27-year-old Harvard student after a required nine-session module in decision making and ethical values at the beginning of the Harvard MBA program.

> Before, [when] I looked at a problem in the business world, I never consciously examined the ethical issues in play. It was always subconscious and I hope that I somewhat got it. But that [ethics] was never even a consideration. But now, when I look at a problem, I have to look at the impact. I'm going to put in this new ten-million-dollar project. What's going to be the impact on the people that live in the area and the environment.… It's opened my mind up on those things. It's also made me more aware of situations where I might be walking down the wrong path and getting in deeper and deeper, to where I can't pull back.[30]

It should be clear from the above arguments that ethics can indeed be taught. Ethical behavior relies on more than good character. Although good upbringing may provide a kind of moral compass that can help the individual determine the right direction and then follow through on a decision to do the right thing, it's certainly not the only factor determining ethical conduct. In today's highly complex organizations, individuals need additional guidance. They can be trained to recognize the ethical dilemmas that are likely to arise in their jobs; the rules, laws, and norms that apply in that context; reasoning strategies that can be used to arrive at the best ethical decision; and an understanding of the complexities of organizational life that can conflict with one's desire to do the right thing. For example, businesses that do defense-related work are expected to comply with a multitude of laws and regulations that go far beyond what the average person could be expected to know.

The question of whether ethics should be taught remains. Many still believe that ethics is a personal issue that should be left to individuals. They believe that attempts to teach ethics are inappropriate efforts to impose certain values and to control behavior, much like attempts to proselytize about religion. But we believe that employers have a real responsibility to teach employees what they need to know to recognize and deal with ethical issues they are likely to face at work. Failing to help employees recognize the risks in their jobs is like failing to teach a machinist how to operate a machine properly. Both situations can result in harm, and that's just poor management.

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DEFINING ETHICS Some of the controversy about whether ethics can or should be taught may stem from disagreement about what we mean by ethics. Ethics can be defined as "a set of moral principles or values," a definition that portrays ethics as highly personal and relative. I have my moral principles, you have yours, and neither of us should try to impose our ethics on the other.

But our definition of ethics—the principles, norms, and standards of conduct governing an individual or group—focuses on conduct. We expect employers to establish guidelines for work-related conduct, including what time to arrive and leave the workplace, whether smoking is allowed on the premises, how customers are to be treated, and how quickly work should be done. Guidelines about ethical conduct aren't much different. Many employers spend a lot of time and money developing policies for a range of employee activities, from how to fill out expense reports to what kind of client gifts are acceptable, to what constitutes a conflict of interest or bribe. If we use this definition, ethics becomes an extension of good management. Leaders identify appropriate and inappropriate conduct, and they communicate their expectations to employees through ethics codes, training programs, and other communication channels.

In most cases, individual employees will agree with their company's expectations and policies. For example, who would disagree that it's wrong to steal company property, lie to customers, dump cancerous chemicals in the local stream, or comply with regulations on defense contracts? At times, however, an employee may find the organization's standards inconsistent with his or her own moral values or principles. For example, a highly religious employee of a health maintenance organization may object to offering abortion as an alternative when providing genetic counseling to pregnant women. Or a highly devoted environmentalist may believe that his or her organization should go beyond the minimum standards of environmental law when making decisions about how much to spend on new technology or on environmental cleanup efforts. These individuals may be able to influence their employers' policies. Otherwise, the person's only recourse may be to leave the organization for one that is a better values match.

GOOD CONTROL OR BAD CONTROL? Whether or not we prefer to admit it, our ethical conduct is influenced (and, to a large degree, controlled) by our environment. In work settings, leaders, managers, and the entire cultural context are an important source of this influence and guidance. If, as managers, we allow employees to drift along without our guidance, we're unintentionally allowing them to be "controlled" by others. If this happens, we're contributing to the creation of "loose cannons" who can put the entire organization at risk. Guidance regarding ethical conduct is an important aspect of controlling employee behavior. It can provide essential information about organizational rules and policies, and guidance about behavior that is considered to be appropriate or inappropriate in a variety of situations.

But should organizations be "controlling" their employees in this way? B.F. Skinner,[31] the renowned late psychologist, argued that it's all right, even preferable, to intentionally control behavior. He believed that all behavior is controlled, intentionally

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or unintentionally. Therefore, what was needed was more intentional control, not less. Similarly, ethical and unethical behavior in organizations is already being controlled explicitly or implicitly by the existing organizational culture (see Chapter 9). Therefore, organizations that neglect to teach their members "ethical" behavior may be tacitly encouraging "unethical behavior" through benign neglect. It's management's responsibility to provide explicit guidance through direct management and through the organization's formal and informal cultural systems. The supervisor who attempts to influence the ethical behavior of subordinates should be viewed not as a meddler but as a part of the natural management process.

To summarize, we believe that educational institutions and work organizations should teach people about ethics and guide them in an ethical direction. Adults are open to, and generally welcome, this type of guidance. Ethical problems are not caused entirely by bad apples. They're also the product of "bad barrels"—organizational systems that either encourage unethical behavior or merely allow it to occur. Making ethical decisions in today's complex organizations isn't easy. Good intentions and a good upbringing aren't enough. The special knowledge and skill required to make good ethical decisions in a particular job and organizational setting may be different from what's needed to resolve personal ethical dilemmas, and this knowledge and skill must be taught and cultivated.

THIS BOOK IS ABOUT MANAGING ETHICS

Now that we've (hopefully) convinced you that ethics is a worthwhile topic that can and should be taught, we need to discuss our somewhat unique approach to teaching business ethics. This book takes a managerial approach. Between us, we have many years of experience in management, in consulting, and in management teaching and research. Based on this experience, we begin with the assumption that business ethics is essentially about human behavior, and that if we understand human behavior in an organizational context, we can better understand and manage our own and others' ethical conduct. Kent Druyvesteyn was vice president for ethics at General Dynamics from 1985 to 1993 and one of the first "ethics officers" in an American company. He made a clear distinction between philosophy and management in his many talks with students and executives over the years. As he put it, "I am not a philosopher and I am not here to talk about philosophy. Ethics is about conduct."

We agree with Mr. Druyvesteyn. After years of study and experience, we're convinced that a management approach to organizational ethics is needed. As with any other management problem, managers need to understand why people behave the way they do so that they can influence this behavior. Most managers want the people with whom they work to be productive, to produce high quality products, to treat customers well, and to do all of this in a highly ethical manner. They also want and need help accomplishing these goals.

Therefore, we rely on a managerial approach to understanding business ethics. We introduce concepts that can be used to guide managers who want to understand their own ethical behavior and the behavior of others in the organization. And we

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provide practical guidance to those who wish to lead their department or organization in an ethical direction.

First, we're defining ethical behavior in business as behavior that is consistent with the principles, norms, and standards of business practice that have been agreed upon by society. Although some disagreement exists about what these principles, norms, and standards should be, we believe that there is more agreement than disagreement. Many of the standards have been codified into law. Others can be found in company and industry codes of conduct and international trade agreements.

The ethical decision-making process illustrated in Figure 1.1 involves three basic steps: moral awareness (recognizing the existence of an ethical dilemma), moral judgment (deciding what's right), and ethical behavior (taking action to do the right thing). We propose that all of these steps are influenced by two types of factors: characteristics of individuals and characteristics of organizations. Most ethics texts focus on individual decision making. They teach about philosophical theories that can help individuals analyze the ethics of a given situation to make good moral judgments (the middle stage in the process). The idea is that ethical behavior will improve if people acquire these conceptual tools that can help them make sound ethical decisions. Business people know that deciding what's right represents an essential part of organizational ethics, and we agree. Therefore, we introduce some of the most useful philosophical theories designed to guide moral judgment in Chapter 4. But we also believe that acquiring these decision-making tools provides only a small part of the knowledge needed to improve business ethics. Sometimes people aren't even aware that they are facing an ethical dilemma. That's why moral awareness is considered the first stage in the ethical decision-making process. Even if they are aware that they're facing an ethical dilemma, cognitive limitations and biases often limit their ability to make the best moral judgment (see Chapter 5). Furthermore, even when people know the right thing to do, they often find it difficult to do the right thing because of group or organizational pressures. Therefore, our approach focuses on individuals and organizations—on ways

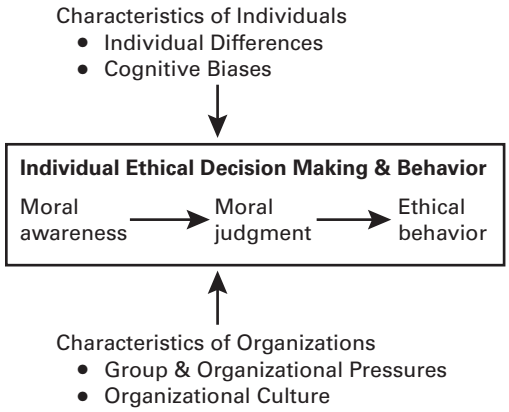


FIGURE 1.1 The Ethical Decision Making Process

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to manage your own conduct and the conduct of other people in the organization, especially those who report to you. (Chapter 7 covers group and organizational influences, and Chapter 9 emphasizes the role of organizational culture.)

As the figure shows, we believe that ethical behavior is affected by both the characteristics of individuals and the characteristics of organizations. But we emphasize organizational factors in this book because those are the factors managers can most influence.

BRINGING ETHICS DOWN TO SIZE

Most ethics texts focus almost exclusively on "big" dilemmas that reflect a corporate position: "Should the company market this product or do business in this particular country? Are executive compensation plans fair and equitable?" We include corporate-level examples, too, because they're important. But this book is also loaded with examples that reflect the ethical dilemmas facing individual employees and managers at all levels (see especially Chapters 3 and 6). "Should you blow the whistle on your employer? Should you accept a gift from a supplier? Should you hire your spouse's company to provide an important service to your firm?" These are the kinds of ethical dilemmas people face every day in work organizations and the kinds of problems that can short-circuit individual careers if they're mishandled.

ETHICS AND THE LAW

You'll find many references to the law in the pages that follow. By including these references, we certainly don't mean to imply that the only guiding principle for deciding what's right should be whatever is legal. Perhaps the easiest way to think about the relationship between business ethics and the law is in terms of a Venn diagram (see Figure 1.2). If we think of the law as reflecting society's minimum norms and standards of business conduct, we can see that there is a great deal of overlap between what's legal and what's ethical. Therefore, most people believe that law-abiding behavior is also ethical behavior. But there are many standards of conduct agreed upon by society that are not codified in law. For example, some conflicts of interest may be legal, but they are generally considered to be unethical in our society and are commonly prohibited in codes of ethics. So, the domain of ethics includes the law but extends beyond it to include the ethical standards and issues that the law does not address. Finally, there are times when you might encounter a law that you believe is unethical. For example, racial discrimination was legal in the United States for a long time. But racial discrimination was and is highly unethical. Similarly, many companies do business in developing countries with few, if any, laws regulating environmental pollution or labor conditions. These companies have to decide whether to adhere to ethical standards that are higher than the legal standards in those countries. Therefore, the legal and ethical domains certainly overlap to a large degree, but not completely. It is conceivable to think of something as being legal and unethical, or unethical but not covered by any law.

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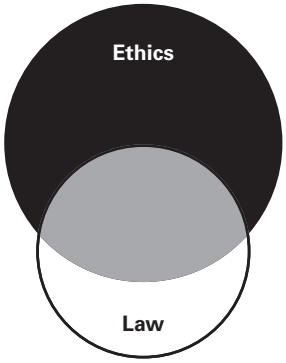


FIGURE 1.2 Relationship between Ethics and Law

HOW THE BOOK IS STRUCTURED

This chapter of the book introduces our approach. Chapter 2 begins with (and attempts to answer) the question many students ask: "Why Be Ethical? Why Bother, Who Cares?" We give concrete examples showing that people at all levels (from employees to managers to society) care about ethics, and that your success in business can depend on how well you can manage ethics.

Part II of the book focuses on ethics from an individual perspective. Chapter 3 categorizes the common ethical problems individuals face at work. Chapter 4 presents the reader with an overview of some basic philosophical theories that have formed the underpinning for the traditional study of business ethics. It also suggests a list of practical decision-making steps individuals can follow to evaluate an ethical dilemma and decide on a course of action. Chapter 5 presents a more psychological approach to individual ethical decision making. It provides a kind of "reality check" for Chapter 4, suggesting that human cognitive biases can interfere with the ideal decision-making process (see Figure 1.1). Chapter 5 also suggests that people do have predispositions to behave in certain ways when faced with ethical dilemmas.

In Part III, we develop our management perspective on business ethics. Chapter 6 presents some common ethical problems managers face when dealing with their subordinates, their superiors, and their peers and provides advice on what factors to consider when you're confronted with one of them. Chapter 7, "Managing for Ethical Conduct," introduces management concepts that can help explain the group and organizational pressures that influence people to behave ethically or unethically. We also provide practical advice for managers about how to use these management concepts to encourage ethical conduct and discourage unethical conduct in their employees.

Part IV is entitled "Ethics and the Organization." It begins with a chapter entitled "Ethical Problems of Organizations." Although some people question whether corporations are moral entities, there are clearly ethical issues that can be classified

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as organizational rather than managerial. This chapter classifies those, using a stakeholder perspective, and provides examples. Chapter 9 focuses on business ethics as a phenomenon of organizational culture. It provides a comprehensive overview of how an organization can build a culture that reflects a concern for ethics, and how it can change its culture to be more supportive of ethical conduct. This chapter also emphasizes the importance of executive ethical leadership for the creation of a strong ethical culture. Chapter 10 follows with practical advice on how organizations can design an ethics infrastructure, and effective communications and training programs. It also includes examples of the programs various companies have implemented to encourage ethical conduct among their employees. Many of these examples resulted from interviews we conducted with top managers in these companies.

Part V wraps up the book with a chapter on international business ethics. Chapter 11 extends our discussion of business ethics to the global business environment. Although global examples appear throughout the book, this issue is important enough to warrant its own chapter.

CONCLUSION

We hope that reading this book gives you a better understanding of how you can encourage ethical business behavior in yourself and others. It's critically important that we all understand ethics because good ethics represents the very essence of a civilized society. Ethics is the bedrock on which all of our relationships are built; it's about how we relate to our employers, our employees, our co-workers, our customers, our communities, our suppliers, and one another. Ethics is not about the connection we have to other beings—we are all connected—rather, it's about the quality of that connection. That's the real bottom line.

DISCUSSION QUESTIONS

1. Before reading this chapter, did you think of ethics as "just a fad"? Why or why not? What do you think now? Why?
2. Have you been cynical about business and its leaders? Why or why not? (See the following cynicism exercise.) How does cynicism affect you, as a business student or as a manager?
3. We defined ethical behavior as "behavior that is consistent with the principles, norms, and standards of business practice that have been agreed upon by society." What happens if society hasn't agreed (as when new technologies come on the scene or strong differences of opinion exist)? And what happens if you're doing business in a society different from your own? How would you define ethical behavior then?
4. Cite an example of unethical conduct you have observed in a work setting. Was it the fault of a "bad apple," was there something rotten in the organization that contributed to the problem, or was it a combination of the two? If you don't have work experience, ask someone who does.

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5. Can you think of something that is legal but unethical, or something that is ethical but illegal?
6. Cite an example of a situation you're familiar with where the "right" answer just wasn't obvious. What would a decision maker need to know in order to arrive at an acceptable solution?
7. Are you convinced that business ethics can and should be taught? Why or why not?

EXERCISE

Your Cynicism Quotient

Answer the following questions as honestly as you can. Circle the number between 1 and 5 that best represents your own beliefs about business.

		Strongly Disagree				Strongly Agree
1.	Financial gain is all that counts in business.	1	2	3	4	5
2.	Ethical standards must be compromised in business practice.	1	2	3	4	5
3.	The more financially successful the business person, the more unethical the behavior.	1	2	3	4	5
4.	Moral values are irrelevant in business.	1	2	3	4	5
5.	The business world has its own rules.	1	2	3	4	5
6.	Business persons care only about making profit.	1	2	3	4	5
7.	Business is like a game one plays to win.	1	2	3	4	5
8.	In business, people will do anything to further their own interest.	1	2	3	4	5
9.	Competition forces business managers to resort to shady practices.	1	2	3	4	5
10.	The profit motive pressures managers to compromise their ethical concerns.	1	2	3	4	5
		Strongly Disagree				Strongly Agree

Add the total number of points. The maximum is 50 points. Total _____.

The higher your score, the more cynical you are about ethical business practice. Think about the reasons for your responses. Be prepared to discuss them in class.

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