Part I

The Need to Attend to Business Ethics

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Why Business Ethics Now?

> Reader, suppose you are a businessman. Now suppose you are of ruthless and greedy character. But I repeat myself.

The activity of moneymaking has always stood in somewhat uneasy alliance with people's private sense of morality. Jokes about business ethics—the above epigraph is a paraphrase of Mark Twain's description of a congressman—have regularly appeared in the popular press over the past two centuries. Many an executive today voices a similar cynicism about the relevance of moral inquiry to managerial practice. For many reasons, from the eternal fact of greed to the very different ways in which we tend to think about managing and morality, ethics and business have often seemed if not downright contradictory, at least several worlds apart. Even those wedded to the notion that integrity in business might be an obtainable ideal have nevertheless tended to leave the exploration of ethical dilemmas to each manager's private conscience.

In the past ten years American business has blasted through the Chinese wall that traditionally separates the discussion of management problems and personal morality. Whereas the voicing of ethical standards was formerly a concern of a few exceptional leaders, today the topic of business ethics is acknowledged to pervade every area of the corpora-

tion just as it is a recurrent issue in the media. Corporate codes of conduct are now the norm rather than the exception.[1] Corporate leaders have become more vocal about their own commitment to ethical standards. Respected national business groups such as the Business Roundtable, the American Management Association, and The Conference Board are sponsoring major ethics programs. In the consulting world, business ethics seminars and conferences comprise a new cottage industry. And many a respected corporation has embarked on an organized attempt to encourage ethical conduct among its employees.

The reasons for the newly elevated place of ethics in business thinking are many. Managers have seen the high costs that corporate scandals have exacted: heavy fines, disruption of the normal routine, low employee morale, increased turnover, difficulty in recruiting, internal fraud, and loss of public confidence in the reputation of the firm. A body of literature has even developed, at this point tentative, outlining the economic costs of a damaged reputation. Business leaders at such outstanding companies as Johnson & Johnson, IBM, Goldman Sachs, Hewlett-Packard, Ford, 3M, Wal-Mart, General Mills, and many others are emphasizing that high personal standards of conduct are a major asset, as economically valuable as that equally elusive intangible called goodwill.

Although many managers are committed to high ethical standards, many others are unconvinced that ethics can be reconciled with economics, or they regard morality as being exclusively a matter of personal character. In a recent MBA business policy class the students were asked to critique an impressive corporate credo that combined practical business functions with ethical ideals. One student asserted that the document was flawed because it tried to combine two very different things. It violated his sense of order. "After all," he said, "ethics doesn't have any direct relation to market share or earnings. It should be in a separate document. You know, ethics are very personal, they're about yourself." Most of the

[1]Ronald E. Berenbeim, *Corporate Ethics* (New York: The Conference Board Research Report No. 900, 1988).

students nodded sagely. A few days later I heard a similar group agreeing with Albert Carr's classic article in which he contended that it was morally acceptable to lie in business as long as you played within the unwritten rules of the game.[2]

The challenges of today's marketplace and the serious ethical lapses that are occurring in nearly every industry demand a more sophisticated approach to ethical dilemmas, one that is more than simply game playing or indulging in personal feelings about oneself. The root of the word *integrity* means "to hold together." Integrity in business today requires incredible integrative powers; the power to hold together a multitude of important and often conflicting values, and the power to bring personal morality and management concerns into the same dimension. No manager can afford, from an economic or moral standpoint, to keep his or her moral notions off in a separate compartment, reserved for the narrowest and most obvious cases.

FACING UP TO FALLIBILITY

The idea that ethical conduct in business is a fairly straightforward notion is at first glance persuasive. One could argue that most if not all of the values that comprise ethical business conduct—honesty, fairness, respect for others, service, promise-keeping, prudence, and trustworthiness—are a familiar part of most managers' upbringing. However, it is an unfortunate fact that these "commonsense values" have frequently suffered meltdown in the marketplace. The headline-gathering corporate scandal and the petty whisperings of office gossip are evidence that business managers—like the rest of humankind—are not always capable of making good ethics an actual fact of business conduct.

When you couple the undeniable pervasiveness of human fallibility with the age-old temptations of money and power, the need for a deliberate exploration of the moral challenges of management becomes clear. Throw in the organiza-

[2]Albert Z. Carr, "Is Business Bluffing Ethical?" *Harvard Business Review* (January–February 1968), pp. 143–153.

tional factors of delegating the execution of one's decisions and having to defer to higher authorities, and the realities of moral fallibility slam home with all the force of a year-end earnings loss.

Unless one is the sole owner of a company that produces no products and hires no employees and creates no waste, merely being raised right will not provide sufficient ammunition against the ever-present opportunities to abandon one's basic moral standards. Every manager regularly faces decisions that are problematic from a moral standpoint and over which he or she does not have total control: decisions where people will inevitably get hurt; where trade-offs must be made between equally desirable values and constituencies; where the commitments of the organization and a manager's performance goals are at odds with the individual needs of certain employees or customers. On these occasions it may or may not be legitimate to compromise professional standards, but clearly the inevitable compromise of moral values which accompanies such decisions should be seen as truly problematic. The gap between a well-thought-out policy at the top level and the messy, hurtful people problems surrounding its execution is great. A good leader cannot assume that by merely plugging in a decent person the moral lights will shine like beacons for every activity in the company.

Achieving and sustaining business integrity is harder and less automatic than that. What is more, every manager has a responsibility not only to *be* above reproach, but for the *perception* that he or she is above reproach, and expects the same standards from others who execute company policy. Otherwise, the well-intentioned and personally upright manager becomes an unintentional contributor to a "look-the-other-way" climate which invites ethical abuses. Thus from the standpoint of managing the large organization, a manager is not an autonomous moral entity. Rather, he or she must be a moral leader, responsible for the behavior of other people and the institution itself, as well as his or her own character.

Addressing this responsibility requires at a minimum an explicit investigation and stand on the ethical aspects of corporate activity, from strategy to compensation.

DEFINING BUSINESS ETHICS

But what, exactly, is to be investigated? Surely most executives already believe that they support honesty, fairness, and apple pie? What else needs saying? As a first step, then, in understanding the nature of ethical decision making in business—as well as the reasons for moral failure—it is important to agree on some general term for the inquiry.

What is business ethics? *Business ethics is the study of how personal moral norms apply to the activities and goals of commercial enterprise. It is not a separate moral standard, but the study of how the business context poses its own unique problems for the moral person who acts as an agent of this system.*

Aristotle defined virtue as a matter of habit or the trained faculty of choice (*Nichomachean Ethics* II.6). Business ethics reflects the habits and choices managers make concerning their own activities and those of the rest of the organization. These activities and choices are informed by one's personal moral value system, but that system often suffers a transformation of priorities or sensitivities when it operates in an institutional context of severe economic constraints and pressures, as well as the potential for acquiring power.

Although there are many different moral aspects of business, business ethics generally falls into three basic areas of managerial decision making:

1. **Choices about the law**—what it should be and whether or not to obey it.
2. **Choices about the economic and social issues that are beyond the law's domain**—usually called the "gray areas" or "people values." These concern the tangible and intangible ways one treats others, and include not only the moral notions of honesty, promise-keeping, and fairness, but also the avoidance of injury and the voluntary reparation for harm done.
3. **Choices about the preeminence of one's own self-interest**—the degree to which one's own well-being comes before the interests of the company

or of other people inside and outside the company. Included are decisions concerning rights of ownership and how much money is to be retained or distributed elsewhere.

The ways in which such choices are framed, analyzed, and either maintained or abandoned form the basis of the business ethics inquiry. The validation of *business ethics*, however unpopular the term, is simply a way of acknowledging that, indeed, there are choices to be made concerning the means and ends of business which have an essentially moral ingredient.

SHIFTING CONCERNS

Often the discussion of these choices grows out of a major collapse of moral standards in a specific business activity. The issues that receive widespread attention are in those areas where the normal rules have broken down. Thus the topical issues of business ethics shift over time. In the 1950s, two major concerns were price-fixing and dehumanization in the work force (e.g., Arthur Miller's *Death of a Salesman* and Sloan Wilson's *The Man in the Gray Flannel Suit*). In the 1960s, the Vietnam War aroused general moral indignation over the political and military aggressiveness of the military-industrial complex and its "multinational conglomerates." Perhaps in reaction to the demonstrated destructiveness of business overseas, managers were also faced with new constraints on environmental and social destructiveness. A series of social conscience reforms—from pollution control to EEO standards—were instituted inside the corporation and in the legislative arena.

In the 1970s, corporate internationalism and newfound markets in Asia and the Mideast shifted the nation's corporate conscience to issues of bribery here and abroad. Watergate raised an outcry against political contributions activity, and led to a major revamping of reporting requirements and internal auditing procedures. Corporate codes of conduct were a tangible response. Meanwhile, a rapidly rising con-

sumer movement was forcing attention on the deceptive and/or injurious practices in the development, advertising, packaging, and labeling of goods.

Consumer issues and cultural differences abroad continued to dominate business ethics in the first half of the 1980s. But in the last half of the decade, the central issues of collective moral concern took new shape. Whereas during the past two decades most business ethics issues centered on problems of *institutional* responsibility and *institutional* mechanisms for encouraging conformity to high standards, the focus is now on the *moral capacity of individuals*. Insider-trading, hostile takeovers, and the breakup of well-known and dependable corporate entities such as the major retail chains have shifted public attention back to the age-old problems of individual greed and dishonesty. The egregious behavior of extremely wealthy individuals in both the insider-trading and S&L debacles has ruptured the thin membrane of impersonality that formerly surrounded most discussions of business ethics.

A manager's personal values and strength of character have become urgent issues for the corporation. In a recent survey by Korn/Ferry and Columbia University Graduate School of Business, over fifteen hundred executives from twenty countries rated personal ethics as the number one characteristic needed by the ideal CEO in the year 2000.[3] As Delbert "Bud" Staley, former chairman of NYNEX, remarked, personal integrity is a business leadership essential: "We have to depend on every one of our employees for the good reputation of this firm." So, too, Johnson & Johnson's Jim Burke has asserted that most individuals in his company welcome the emphasis on high ethical standards which their Credo represents. "After all," he said, "everybody wants to believe in something."

EVEN THE BEST PEOPLE HAVE ETHICAL PROBLEMS

Despite the widespread agreement today on the need for ethical *people* in business, it is still hard for individuals to

[3] Korn/Ferry International and Columbia University Graduate School of Business, *21st Century Report: Reinventing the CEO* (Los Angeles: 1989), p. 41.

feel that they personally face ethical problems. This point was made succinctly when NYNEX's current chairman, William Ferguson, remarked that he never viewed "Gab-lines" as his own ethical problem, because he was so clear on his own moral stand: he was personally against pornography. And yet first amendment issues and legal obligations of the carrier demanded that the company provide service for these activities. In retrospect, says Ferguson, he had a moral obligation to address the issue more aggressively. The service was reexamined and NYNEX made a breakthrough in selective blocking technology, which allowed consumers to exercise choice in this matter.

FAMILIAR ETHICAL QUANDARIES

Such circumstances arise daily. The rules of the marketplace and pluralism of our society present opportunities and needs for action which do not on the surface seem to give rise to personal moral doubt, but which do, on closer examination, represent important moral problems for the individual. Ethics is everywhere. A quick survey of most managers would be likely to include participation in, if not direct initiation of, at least twenty of the thirty following situations. All are important from a managerial standpoint, and all contain moral issues of honesty, fairness, respect for others, or fulfillment of promises. I have compiled the list simply from the comments of executives with whom I have worked. The reader may wish to check how many he or she has personally encountered in the past two years.

1. Greed
2. Cover-ups and misrepresentations in reporting and control procedures
3. Misleading product or service claims
4. Reneging or cheating on negotiated terms
5. Establishing policy that is likely to cause others to lie to get the job done
6. Overconfidence in one's own judgment to the risk of the corporate entity

7. Disloyalty to the company as soon as times get rough
8. Poor quality
9. Humiliating people at work or by stereotypes in advertising
10. Lockstep obedience to authority, however unethical and unfair it may be
11. Self-aggrandizement over corporate obligations (conflict of interest)
12. Favoritism
13. Price-fixing
14. Sacrificing the innocent and helpless in order to get things done
15. Suppression of basic rights: freedom of speech, choice, and personal relationships
16. Failing to speak up when unethical practices occur
17. Neglect of one's family, or neglect of one's personal needs
18. Making a product decision that perpetrates a questionable safety issue
19. Not putting back what you take out of the environment, employees, and/or corporate assets
20. Knowingly exaggerating the advantages of a plan in order to get needed support
21. Failing to address probable areas of bigotry, sexism, or racism
22. Courting the business hierarchy versus doing the job well
23. Climbing the corporate ladder by stepping on others
24. Promoting the destructive go-getter who outruns his or her mistakes
25. Failing to cooperate with other areas of the company—the enemy mentality
26. Lying by omission to employees for the sake of the business
27. Making an alliance with a questionable partner, albeit for a good cause

28. Not taking responsibility for injurious practices—intentional or not
29. Abusing or just going along with corporate perks that waste money and time
30. Corrupting the public political process through legal means

What is most interesting to me about this list is its length. Moreover, these are not hothouse problems that occur once in a career, they are familiar dilemmas. A company has at least twenty on the table every day. A manager has at least twenty on his or her desk every year. What I find equally impressive is their elusive nature. These are the kinds of situations that seem obviously wrong from a distance, but are so embedded in other concerns and environmental circumstances that the demarcations between right and wrong are blurred. Even price-fixing has been regarded by many otherwise high-minded executives as not really significant from a moral standpoint.[4]

With the possible exception of number 13, each example poses a choice to step over the moral line or not. An ethical resolution to these situations requires discretional judgment about degree, overall goals, immediate logistical problems, other trade-offs, chances of success, and so on. There is no canned program or magical mirror to help you determine what is right and wrong.

Such dilemmas are at the core of every manager's job, and their resolution rests partly on the foundation of values he or she brings to the task, but also on many conditions beyond a manager's direct control. Being raised right presumably provides the foundation for moral conduct. But how many managers with good backgrounds nevertheless end up as players in a commercial effort that puts other people's lives at risk?[5] How many succumb to an "everybody-for-him-or herself" culture

[4]Relatively low penalties for the act indicate that the judicial system concurs. For a discussion of attitudes toward price-fixing, see Marshall Clinard and Peter C. Yeager, *Illegal Corporate Behavior* (Washington, DC: National Institute of Law Enforcement and Criminal Justice, 1979).

[5]For example, over 100,000 deaths per year are attributed to occupationally related diseases, the majority of which are caused by willful violations of health and safety laws by corporations. See Ronald C. Kramer, "Corporate Crime: An Organizational Perspective," in *White Collar and Economic Crime*, eds., Peter Wickman and Timothy Dailey (Lexington, MA: Lexington Books, 1982), p. 76.

because those who were greedy and dishonest seem to get all the rewards? How many employees, disgruntled over a superior's conduct, feel no qualms when they choose to lie to a customer rather than solve the customer's problem?

Or say you are confronted with a potentially flawed product that would not physically injure a customer but certainly would cost him or her time and money. You have to determine whether to delay its introduction, and for how long, while you run time-consuming tests and make adjustments. Meanwhile the company has set your division a hard and fast sales target for the quarter, you are in a declining market with unethical competitors and have a smaller staff, and the investment community is breathing down your boss's neck. How does being raised right provide an automatic solution, even at the theoretical level, to the many ethical choices that must be made about one's obligation to customer, shareholder, boss, and organization?

Good business leadership and ultimately the fate of capitalism depend on the deliberate maintenance of a complex web of ethical values in the face of these many conflicting pressures. No moral artifice such as the law or corporate policy can mechanically solve the difficult trade-offs and painful decisions a responsible manager continually faces.

The moral calculus with which a manager would evaluate the current currency of his or her corporate activities must include more than what was learned at parental knees. It is cavalier to imply that maintaining ethical standards is easy as long as you're strong enough. Everyone faces hard issues whose solutions are not always obvious. The reconciliation of profit motives and ethical imperatives is an uncertain and highly tricky matter.

What is more, theoretical frameworks for reconciliation, though important, are obviously not enough. There is an old proverb: "The road to hell is paved with good intentions." Many analysts of business ethics have noted that most instances of business wrongdoing are committed by people who never deliberately set out to commit unethical acts.[6] The po-

[6]For example, Gerald E. Ottoson states: "Most of the unethical acts I have seen committed in business were performed by essentially honest people." "Winning the War Against Corporate Crime," *ethikos* 2.4 (January–February 1989), p. 3.

tential for fallibility is not confined to the business person, but it also does not escape him or her. One is reminded of Hannah Arendt and Primo Levi's sobering conclusions that the truly frightening thing about the Holocaust was that it was carried out not by the fiendishly evil or maladapted, but by ordinary people who, under other circumstances, would appear to fit our common definitions of goodness. Wrote Levi in a moving analysis of the average Nazi in the SS:

> They were made of the same cloth as we, they were average human beings, averagely intelligent, averagely wicked: save the exceptions, they were not monsters, they had our faces, but they had been reared badly. They were, for the greater part, diligent followers and functionaries . . . many indifferent, or fearful of punishment, or desirous of a good career, or too obedient.[7]

History and developmental psychology have indicated that members of almost any group, though individually well intended, can sink to immoral depths they would never dare test as individuals.

Today's manager needs to be armed with an awareness of what habits of thought and action are most likely to subvert moral common sense and the intellectual tools for breaking through these ethical snags.

A SYSTEM AT RISK

The need for a second look at one's own approach to business ethics is particularly urgent as we enter the 1990s. In the past, attention to the ethics of business centered largely on money matters. Corporate standards were primarily a matter of procedural rules about the pursuit of self-interest and welfare state instructions about the responsible distribution of the assets accrued. In a simplistic perversion of the Hebrew commandments, these standards consisted of a promise and

[7]Primo Levi, *The Drowned and the Saved* (New York: Summit Books, 1986).

a curse: Do this and you will prosper, fail to do this and you will be cursed. "This," to put it in free-market terms, was the pursuit of self-interest within the bounds of law and custom.

This contract for conduct has informed the basic motivational and allocation mechanisms in the corporation for at least the past forty years. Its assumption that personal goodness will follow fairly easily has rested on four important conditions:

1. Sustained economic growth
2. An expectation of lifetime employment
3. A homogeneous work force
4. A national educational system that stresses literacy, math ability, and basic Judeo-Christian values

Immediate and dependable cash rewards, people whose norms were similar, an effective educational background, and the prospect of working with much the same group throughout one's career were sufficient to stimulate teamwork and productivity. People were relatively competent by the time they finished their higher education goals, and they were willing to cooperate and be self-sacrificing and work hard because it paid to do so. They stayed more or less within the bounds of acceptable behavior because 1) the players were all reasonably like-minded, 2) the pie was big and growing, and 3) the legislative arena was relatively benign. George Gilder's description of the humane nature of the free market would generally have been said to be accurate, if somewhat exaggerated.

Granted there were downsides to this ethos—smothering conformity, humiliating obedience to a hierarchical social system, and more recently the decline of market responsiveness—but in general, business could rely on informal cultural mechanisms and formal controls to motivate success within acceptable bounds of conduct and still use profit as the driving concept. A manager could informally voice a question about the "right way of doing business" and likely be understood by others without seeming to invade someone else's privacy or putting the business at unacceptable risk.

It was also possible for a manager to have direct oversight of other people's behavior. Robert Baldwin, former chair-

man of Morgan Stanley, recounted how in his early days at the firm all the traders sat in a circle with Mr. Morgan occupying a prominent position on a platform at one end. "You can believe me," said Baldwin, "this was a powerful incentive to conduct yourself ethically."

Even as late as the early 1980s, the established reaction to scandal—whether it was environmental pollution, consumer injury, or overseas bribery—was to increase the control mechanisms within the company, pass laws or set company restrictions, and leave it at that. The essential motivational patterns and approaches to problem solving remained firmly rooted in a "my profit/my company's profit–first" orientation.

As one astute manager expressed it in 1989, "Essentially you motivate for greed and set up a strong system of controls to ensure that if someone steps over the boundaries, they'll get caught and be penalized."

Although this formula for ethics and success may still hold strong currency in some managers' thinking about business morality, the environment that supported it has been steadily eroding since 1970. In 1990, it is all but gone. Economic recession in many industries and a multipolar array of strong competitors have undermined the promise of universal and immediate cash rewards among like-minded people. Downsizing, mergers, and extreme work force mobility have destroyed any remaining illusions about lifetime employment. Homogeneity and coincident value systems are all but gone. The work force is now international, multiracial, dual sexual, and on its way to being even more so. The legislative arena is redefining (with customary difficulty) every standard of corporate behavior from import quotas to drug testing. The schools have abandoned values education for so long that even a free-market president speaks of a values crisis in this country and calls for a kinder, gentler nation. As for hard work and sacrifice, U.S. personal savings rates dropped from over 10 percent of income to under 2 percent between 1973 and 1987.

In short, the familiar free-market ethos of managed greed has become unmanageable. The already fragile bonds between people in the marketplace are fast disappearing as the cash rewards fail to materialize, and traditional methods of leadership such as personal contact and communication

with the top become all but obsolete as the corporation becomes larger and geographically more scattered.

The situation is further exacerbated by massive disruptions of company traditions through ownership changes and the increasing impersonalization of work as technology progresses into everyone's backyard. Excessive wage gaps between the top and the bottom distance people still further and breed resentment. A resentful worker is one more likely to rip off a company or at least fail to go the extra mile for its customers. Moreover, without massive investment in reeducation, many workers could not effectively respond to entrepreneurial opportunities even if they wished to do so.

These environmental changes have meant bad news for many companies' performance records as teamwork, cooperation, and self-sacrifice fail to inform managerial attitudes and behavior. The accompanying decline in trust levels makes it increasingly difficult to motivate intracompany cooperation and responsiveness to customers, or to count on employee loyalty in situations where the rewards must be down the road, and not guaranteed at that. Meanwhile, consumers are able to survey a wider and wider arena of alternatives to choose from.

The impact of these changes is not just economic. They also spell danger for the moral capacity of business and the people in it. Technology and financial complexity have created many more opportunities to cheat and many more corners to hide in. New environmental concerns and a more educated consumer pose additional quandaries about products, markets, manufacturing, and financing. When growth is relatively constant and lifetime membership in the corporate family assured, it is easier for a person to invest time, money, and reputation to solve such problems. But today's survival environment stimulates a me-first business ethic which seems to justify exploitation and cheating because the lifeboats are filled. Game playing and indifference to others are inevitable results. The trust factor is eroded at every level of corporate activity. The spontaneity, enthusiasm, and personal risk-taking that characterize many startup, high-growth businesses are being lost in the economic and social turmoil that embroils most large corporations today.

In such an environment the old models of motivating

for self-interest and passively leaving other values to chance or outside regulation simply fail to be effective moral or market motivators. In the 1980s, we have seen the emergence of a materialistic, get-rich-quick, "lean-and-mean" ethos which is creating a self-destructive confidence gap in individual corporations and the marketplace. It has also set up many executives for a certain identity crisis as their material achievements either diminish in the face of economic downturn or fail to nourish their spiritual needs.

Those who voice confidence in the private sector's ability to carry on as usual in face of such changes should not forget that until quite recently the securities industry, resting on a bedrock of self-regulation and after-the-fact regulatory oversight, was frequently cited as the model for encouraging high ethical standards in business. As the moral fabric of this industry unraveled in the late 1980s, all the environmental factors mentioned above battered the companies at which wrongdoing occurred: dramatically abrupt changes in ownership and leadership patterns, a more diverse work force with more individualistically centered values, heightened complexity of transaction procedures providing more places to hide, a globalized and faster-paced playing field, and legislative rules that did not keep up with changing practices and increased volume.

MOVING BEYOND COMPLIANCE CONCERNS

The quiet tragedy is that so many securities companies, by failing to address the devaluation of personal standards, which would be the inevitable fallout of such conditions, ended up victimizing not only the public but themselves as well. As one executive in the industry put it, the system worked in the sense that some people eventually got caught, but what do you do next? For many whose business approach was formed by this system, the only operating questions on the table are, will we be staying within the procedural rules, and will we make money? In such questions one finds no deep foundation of values to help reverse the recent overemphasis on greed.

Theologian Paul Tillich has described the truth of a faith as its ability to express adequately an ultimate concern. He defines adequacy of expression as something that "creates reply, action, and communication."[8] Laissez-faire ethics, i.e., relying on everyone's home rearing or creating a lot of sticks to punish after the fact, is no longer able to create the kind of communal reply, communication, and action that is adequate for expressing the ultimate concerns about profit and morality, namely, 1) whether there is real value-creation, and 2) how the standard way of doing business affects people in the system and those who are objects of its activity.

The chief issue for business ethics and the manager intent on sustaining high corporate standards of behavior is not the detection of all the business people who are unethical. Compliance oversight is needed, but it is not the whole answer to ensuring ethical business conduct. The task at hand for every corporate leader is to concentrate not just on what should *not* be done, but also on what the ethical manager *should* be thinking from moral and economic standpoints. Here is where the real moral leadership will occur in corporations.

ENLIGHTENED SELF-INTEREST?

To begin the journey, it must be recognized that standard managerial approaches to problem solving and motivation are failing to keep basic moral standards and the overarching goals of a capitalistic society alive in today's changed competitive and social environments. Traditional self-interest models of problem solving and motivating do not adequately stimulate either the moral or performance outcomes for which they were developed. They no longer provoke truly enlightened self-interest, with its implication of suspended self-interest for long-term self-enhancement. Rather, they are being perverted into a justification for what I call the survival ethic, i.e., everyone for him- or herself for the sake of the company's survival. As increasingly dire depictions of Ameri-

[8]Paul Tillich, *Dynamics of Faith* (New York: Harper Torchbooks, 1965), p. 96.

can industry's demise are accompanied by calls for "breaking the rules," the survival ethic becomes more and more persuasive and equally unmanageable. The obvious outcome is a no-holds-barred approach to business which renders impotent our hoped-for constraints on predatory behavior. It also introduces into the system a hidden and lethal "exploitation virus" that causes well-intended team building and joint venture efforts to self-destruct.

New kinds of competitive alliances, new arrangements of the work force, and old problems of unresponsiveness call for a more socially oriented approach to management which can stimulate the ethical values that build rather than impede cooperation, hard work, personal empowerment, and value-creation as a first goal. If business and society are to thrive, we need a stronger moral ballast for business than thoughts of self-advancement.

It is time to strike a new bargain for capitalism, one that recognizes that voluntary exchange, individual and social health, and the cooperation of large groups of people are based on more than the management of personal self-interest. To the degree that they fail to go beyond the appeal to self-interest, current goal setting and other motivational frameworks for problem solving are setting companies up for moral and financial failure.

A new foundation of assumptions is needed that elicits the normal array of ethical values *despite* the current economic and social upheavals. Without these values, which would include honesty, trust, value-creation, fairness, and self-sacrifice, potentially destructive ethical dilemmas such as the thirty mentioned above can become the unremarkable norm. Should that occur, current corporate efforts toward innovation, responsiveness, and teamwork will be futile. A company's reputation, for that matter the integrity of our economic system, ultimately rests not on self-aggrandizement but on the cultivation of genuinely self-respecting employees who have the welfare of others firmly seated in their value system. The legitimacy of capitalism depends on managers who have the necessary understanding and skill to maintain these other-oriented standards as the pressure to abandon them increases.

The ethics issue of the 1990s will surely be the search for a set of management assumptions that can stimulate per-

sonal integrity and responsiveness to others in the marketplace within the changing competitive context of most industries. To be successful, this inquiry cannot remain isolated from other business issues today. One must understand the moral underpinning of a success theory, if excellence is ever to be obtained and sustained.

Some business leaders and long-standing corporate traditions have already found the kind of business philosophy needed to respond to the ethical complexities of commercial endeavor. Increasingly, they are shedding the traditional anonymity of the CEO's role in favor of a more explicit assertion of ethical standards. This new style of leadership, exemplified by such people as Wal-Mart's David Glass, Johnson & Johnson's James Burke, and Xerox's David Kearns, *has underscored the importance of individual integrity and the relevance of private moral values to the achievement of excellent performance.*[9] Likewise, Tom Peters echoes the thinking of a number of his admired executives when, in *Thriving on Chaos*, he cites "integrity" as the capstone of his forty-five-point list of competitive attributes. These people not only have a theoretical commitment to ethical conduct, they have already successfully applied familiar ethical values like honesty, trustworthiness, loyalty, fairness, self-knowledge, and beneficent results to the realm of moneymaking and managing. John Casey's *Ethics in the Financial Marketplace* and Max DePree's *Leadership Is an Art* are two outstanding examples of this leadership philosophy.[10] My purpose here will be to build on the tenor of such works and to systematically explore the major themes of the "excellence" literature in terms of the *moral* premises on which outstanding performance is based and motivated.

THE COVENANTAL ETHIC

The most noteworthy feature of a Johnson & Johnson Credo, or Max DePree's management approach, is the way in which self-interest is reoriented. It is not that these business

[9]For a recent study of "values-driven" leadership, which describes some of this new explicitness, see Joseph L. Badaracco, Jr., and Richard R. Ellsworth, *Leadership and the Quest for Integrity* (Boston: Harvard Business School Press, 1989).

[10]John L. Casey, *Ethics in the Financial Marketplace* (New York: Scudder, Stevens & Clark, 1988); and Max DePree, *Leadership Is an Art* (Garden City, NY: Doubleday, 1989).

leaders ignore profit motives—far from it. But they subordinate self-interest to other motivations, the most prominent of which are value-creation and service to others. Their experience, the way they define goals, and how they describe the way they resolve problems provide the basis for what I will call a Covenantal Business Ethic. This label is a deliberate echo of the social contracts that early New England communities established for the mutual well-being of their members. The Covenantal Ethic provides a coherent blending of profit motive and the other-oriented values that help create trust and cooperation between people. It has three essential aspects: 1) It sees value-creation in its many forms as the primary objective; 2) it sees profit and other social returns as a result of other goals rather than the overriding objective; and 3) it approaches business problems more in terms of relationships than tangible products.

Building upon this framework, a Covenantal Ethic stresses service to others and deliberately draws on some of the nonrational impulses, such as "caring," which secure people's commitment to organizations and tasks even when doing so is not obviously to their immediate advantage. As such, this ethic differs from traditional approaches not just in focus but in the vehicles by which moral conduct is made an active part of management. Emotional phenomena have for the most part been absent from the vocabulary and theoretical frameworks that business people have applied to moral problems. Morality has been a question of legal obligation, a weighing of rights, a cost-benefit calculation of consequences. A Covenantal Ethic does not preclude these kinds of thinking, but it also draws on the workings of the heart. It is a radical departure from the eat-or-be-eaten, sweat-or-be-beaten theories of motivating hard work and innovation one hears so often in executive seminars and analyses of, for example, why we've fallen behind, say, Japan.

Not only does a Covenantal Ethic promise a more communal morality in business thinking, it also holds the prospect of increasing a manager's sense of self-worth. Covenantal thinking's foundation is the belief that *all* individuals are worthy of respect and service, rather than being of worth only in terms of what they might cost or gain you. Simply

stated, it is an assertion of humanism, in that it holds every life to be of value, even in the economic context of serving a corporate entity. Thus a Covenantal Ethic, or for that matter any other business ethic, is a statement about the relative significance of individuals and the society to which they are committed. I see these significances not just in terms of productivity, though that is important, but also in terms of vitality. A Covenantal Ethic places the energy and intrinsic worth of individuals above the mechanics of an organizational system and its preordained financial strategy. As such, it is an ethic that directly complements recent arguments such as Tom Peters's or Rosabeth Kanter's about the need for increased individualism and autonomy in today's competitive environment.[11]

Though I agree with their theses, to my mind this need is not a new one precipitated by the need for new organization structures in the face of changing competition. In the 1950s and 1960s, it was argued that the corporation needed to pay more attention to individualism because of the very success of its hierarchical bureaucracy. Now it is argued that the corporation needs to pay attention to individualism because of its failures. It seems more likely that individualism is quite simply an ever-present human need, independent of economic fortune. The society that is vital and moral must have individuals who are vital and moral. This is especially true for business.

It is important to note at the outset of this inquiry that the Covenantal Ethic suggested here is not a theoretical wishlist about the nation's corporate leadership, but a reality in many of the country's most successful organizations. Covenantal thinking has a proven economic and moral track record, as Herman Miller Company's legendary annualized earnings growth and product quality demonstrate, or J.C. Penney's continued and successful responsiveness to customers illustrates.

As its title suggests, this book poses the notion that it is possible for a manager to carry his or her moral concerns

[11]Tom Peters, *Thriving on Chaos* (New York: Harper & Row, 1987); Rosabeth Moss Kanter, *The Change Masters: Innovation and Entrepreneurship in the American Corporation* (New York: Simon & Schuster, 1983); and, more recently, *When Giants Learn to Dance* (New York: Simon & Schuster, 1989).

beyond the realm of good intentions into actual application in the achievement of economic success. The approach I suggest here conforms to what one would call "good business sense." It tries to enhance the way managers think about that concept by systematically analyzing the moral and humanistic dimension of good business judgment. This perspective is crucial if capitalism's moral objectives of social good and individual well-being are not to become obsolete. I firmly believe that there is a deep reservoir of decency in American management, but that too frequently the way in which managers set goals and measure success fails to tap that resource adequately. The number one American business challenge in the 1990s is to transform a manager's allegedly good intentions into a profound and enacted covenant with customers, employees, and the general public. None of these groups are limited to American shores. The global nature of this covenant only adds to its urgency, for how well it is fulfilled could either destroy or secure the tenuous foothold that democratic capitalism has in so many nations today.

2

Personal Morality and Business Ethics

There is no such thing as business ethics. There's only one kind—you have to adhere to the highest standards.*

While many corporate leaders are giving strong voice to the need for high ethical standards in business, it has been very difficult to find the right vocabulary and terms for describing the moral dimension of management. As Bower's statement implies, the term *business ethics* can be repulsive. To him and others it suggests the immoral idea of condoning a double standard—one ethic for private life, another for business decisions. To others, business ethics suggests a laughable contradiction in terms.

Thus, although many pundits express the need for strong moral standards in business, there have as yet been few successful verbal reconciliations of management and morality. What do we mean by the terms *integrity* and *highest standards of conduct*? Are these concepts, which are generally obvious, really so undeserving of remark when managers must daily confront the many gray areas of business behavior? Is it enough to outline what one shouldn't do and leave the rest to personal instinct?

*Marvin Bower, former managing partner, McKinsey & Co. Quoted in Walter Guzzardi, "Wisdom from the Giants of Business," *Fortune*, July 3, 1989, p. 81.

Obviously not, for as the thirty situations listed in Chapter 1 suggest, managers regularly face decisions that carry no obvious demarcation between right and wrong. Moral conduct in business deserves the same systematic attention any other aspect of management receives. So far, however, there has been little help in this area. Formal philosophical and theological analysis has not found a useful translation device for describing the concerns of the soul in the language of the pocketbook.

This failure should come as no surprise. Both fields have scorned the discussion of business for thousands of years. The Bible warns against serving mammon. Even Aristotle, writing over two thousand years ago, first considered the business person as a possible topic for his work on applied ethics, then rejected the proposition outright on the grounds that the purposes and mentality of the vulgar merchant or mechanic were not sufficiently well-minded for serious moral analysis. (*Eudemian Ethics* I.IV.2)

As for our instinctive responses, the idea of a business life of integrity simply does not compute for most people. In our culture it is easy to imagine a heroic doctor risking his or her own health to treat the sick. Or a heroic lawyer defending, at the expense of his or her own career, an unpopular client's right to a fair trial. Nor is the image of a teacher maintaining the search for truth at the risk of personal ridicule far-fetched.

It is far more difficult to idealize a stereotypical corporate executive nobly making money. And when doctors or teachers begin to reveal moneymaking motivations, they are firmly subjected to the same social cynicism. Philip Caldwell, former chairman of Ford Motor Company, commented on this terminally suspicious vision of business morality when he said, "Many people think that if you're a business person you must automatically be greedy and dishonest. I find that view to be repugnant."

The field of management science, while not as overtly cynical about executive morality as the media, has nevertheless exhibited a similar dearth of intellectual clarity on the specific application of ethical standards to solving the standard problems of business. Personal values are acknowledged to be important, but how do these translate into the substance of

impersonal management systems? Most statements of business purpose are functional rather than ethical in nature. Drucker, for example, has described the overall purpose of business as "the productive utilization of wealth-producing resources."[1] Others assume that "producing greater and greater efficiency" is the overall purpose of business, at least in a democratic capitalistic system. Many other analysts of business describe essential business components either in overtly functional terms or in terms of "excellence" without ever defining the overall purpose to which such activities are aimed.[2]

Such statements are hardly a beacon for guiding a manager's personal integrity through the shoals of materialism and efficiency. Without an overarching understanding of how private values and institutional goals do or do not relate, the claim that business ethics is simply a matter of having a good conscience is rather useless and even misleading. On the other hand, the moral nature of business is not adequately addressed by bare descriptions of organizational or economic functions. We are taught that the corporation is a legal concept, defined as a legal entity, but in practice it is also a social entity. It is an organization of people whose actions have an effect upon each other's welfare and rights.[3]

[1]Peter F. Drucker, *Management* (New York: Harper's College Press, 1977), p. 62.

[2]See, for example, Tom Peters and Robert Waterman, *In Search of Excellence* (New York: Harper & Row, 1981), which is structured on the McKinsey 7S components of a business and eight attributes of excellence. Kenneth Andrews, in his classic business text on corporate strategy, begins his analysis with a definition not of business but of management which is overtly functional but not overtly social: "Management may be defined as the direction of informed, efficient, planned, and purposeful conduct of complex organized activity" (*The Concept of Corporate Strategy*, rev. ed. [Homewood, IL: Richard D. Irwin, 1980], p. 2.). Earlier, Chester Barnard (*The Functions of the Executive* [Cambridge, MA: Harvard University Press, 1938]) and Philip Selznick (*Leadership in Administration: A Sociological Interpretation* [Berkeley: University of California Press, 1984]) had already moved the definition of management from the impersonal definition of "the delegation of ownership" to a more social context. What they did not do, however, was describe purpose, but rather function. See, for example, Barnard, p. 18. "It [management responsibility] is responsibility for contribution. Function rather than power has to be the distinctive criterion and the organizing principle."

[3]Some have argued persuasively that the nature of an individual person is also essentially social, if for no other reason than that a person's very life is the product of a union of two. See, for example, F.H. Bradley, "My Station and Its Duty," in *Ethical Studies*, 2d ed. (Oxford: Clarendon Press, 1927). The point I am making here is that whereas individual people seem to have a mixture of privateness, separateness, and socialness, nothing in a business escapes the social context.

MOVING UP THE MORAL LEARNING CURVE

Difficult as it is to bridge the gaps between the traditional discussion of private conscience and the discussion of management science, the journey must be made. Morality is an inescapable fact of managerial life whose problems must be systematically analyzed.

Nearly every business decision and activity inherently has a moral aspect or significance. Many of these are variations on the quality of trust. A financial transaction, for example, cannot be obtained without the establishment of several mechanisms of trust: negotiators must be trusted to keep their word, prices quoted must bear some relation to prices charged, record-keepers must be relied upon to keep accurate records about what is done by whom and for how much. Product decisions require that people make assessments of quality and efficacy, which depend on the honesty and accuracy of those people. Complex service systems and transactions require efficient teamwork, which cannot be secured without cooperation, which in turn cannot be achieved, even when mandated by law, unless trust and mutual respect have been established between the players. If an employee does not trust that top management cares about him (or her), it is unlikely that he or she will care to deal meticulously on behalf of that management. If other business units cannot be trusted to tell a straight story and to take credit for only what they deserve, then why insist on personal standards of honesty unless they have a demonstrable payoff?

Amitai Etzioni has expressed the fundamentally moral aspect of business eloquently:

> Trust, of course, is pivotal to the economy, and not merely to social relations, as without it, currency will not be used, saving makes no sense, and transactions costs rise precipitously; in short, it is hard to conceive a modern economy without a strong element of trust running through it.[4]

[4]Amitai Etzioni, *The Moral Dimension: Toward a New Economics* (New York: Free Press, 1988), p. 8.

Moving beyond the ethics of trust on which managerial activities depend, it can be seen that managers also make decisions that engender moral *outcomes.* Most corporate activities have an impact on other people and are thereby inherently subject to consequentialist questions about their ultimate good or harm.

We know that such issues, far from being a trend of the 1980s, are at least as old as the Sumerians, who lived five thousand years ago. Writing itself, one of the most important inventions in the history of humankind, was developed in part as a response to a business ethics problem. The long distances and hazards of the great trade routes along the Tigris-Euphrates raised new difficulties in ensuring payment for and delivery of goods sold. The Sumerians developed the first crude forms of writing to record commercial activity on tablets so that distant transactions could be carried out in an environment of mutual trust and accountability. Once this environment was created, commercial enterprises and trade exploded. Clay tablets made possible taxation, inventory, and transactions, forming the economic and institutional basis of the first great Western civilization.

While the historical impact of "business ethics" is no doubt considerably less than that of the invention of writing, the current trendiness of business ethics is testimony to the fact that people are still plagued by the moral aspects of business life and still looking for appropriate responses to the practical challenges these problems raise. As the Sumerian example illustrates, there are no hard lines between the moral, economic, and social aspects of business. Business ethics tends to encompass all three areas of critical thought. It moves without constraint between the macroeconomic systems of capitalism to the organizational behavior issues of management to the very personal and private values that individuals hold dear.

What is more, despite the often-justified skepticism, there is reason to assume that these values and outcomes are capable of coherent analysis for the simple fact that they find coherent expression in actions every day. Even without Aristotle's help, business people manage to achieve ethical outcomes. Contractual obligations are fulfilled and accurate

record-keeping is achieved daily. Many products serve the customer well. Many workplaces provide employees with a fair wage and a legitimate sense of self-worth. And there are many business leaders, from IBM's legendary Thomas Watson to J.C. Penney's Don Seibert, whose commitment to a business career has been marked by outstanding personal integrity, success for the company, and service to the general public.

TRADITIONAL RESPONSES TO ETHICAL RESPONSIBILITY IN BUSINESS

But how does the manager of good conscience address business ethics today? How do the heroic assertions of morality in business such as the resolution of the Tylenol crisis at Johnson & Johnson come about?

Response 1. Trusting in Gut Instinct

There are many ways in which managers respond to the pervasiveness of moral issues at work. One is to trust in "gut instinct" and not try to articulate the problem any further. In many ethics issues such a response is about as adequate as an aspirin in a car accident. Gut instinct alone hardly copes with the moral complexities of PACs, random drug testing, wage gaps, or environmental responsibility.

Nor does gut instinct equip a manager with an adequate voice for ethical leadership in a large organization. Everyone's guts do not rely on the same set of values and choices. One person's entrepreneurial pricing discount for a favored customer may be another person's definition of a kickback. Manager A may be repulsed by the suggestion that the company use the illegally obtained proprietary information of a competitor, while Manager B may feel this is simply a case of gaining the proverbial competitive edge. Merely appealing to one's guts as a guideline for the way a company does business will not ensure unanimity nor even sensitivity when the choices between integrity and easy profit become difficult.

Gut instinct also tends to lose its power as an individual becomes socialized into the value system of an organiza-

tion. History has shown that individuals can make very different choices when they act together as a group. Some of the most admired individuals on Wall Street traded on insider information against their customers' accounts; managers who were presumably good parents systematically falsified accident reports at several nuclear plants across America; church-going executives at a major food processor not only failed to investigate clear indications that their "apple juice" concentrate was 100 percent chemical but later shipped cases of the chemical cocktail off to Puerto Rico in an effort to evade the FDA and sell the product anyway.

Fallibility is a human condition to which managers are as vulnerable as anyone else. As Kenneth Andrews notes in his preface to *Ethics in Practice*, business ethics is "a problem that snares not just a few mature criminals or crooks-in-the-making but also a host of apparently good people who lead exemplary private lives while concealing information about dangerous or lethal products or falsifying cost records."[5] If for no other reason than the frailty of human judgment—especially when confronted with the prospect of making lots of money—the gut instinct approach is not an adequate moral response to the ethical dilemmas and responsibilities of leadership in business.

Response 2. Defining the Shalt-Not's

A second approach to taming the moral issues of business is the commandment technique. Business activities are subjected to a series of how-not-to's on specific topics, often in the form of legislation or an ethics compliance code: No conflict of interest; Do not lie; Be honest and objective in keeping records; Avoid poisoning your customer; Do not pollute the environment; Do not oppress minorities; Do not harass females; Do not sell out the company to the short-term speculator; Do not put your hand in the till.

Such principles are a familiar component of most cor-

[5]Kenneth R. Andrews, ed., *Ethics in Practice: Managing the Moral Corporation* (Boston: Harvard Business School Press, 1989), p. 1.

porate policy statements. They contain important guidelines for groupwide behavior but are limited by their very topicality. For example, a strict guideline prohibiting company buyers from accepting gifts in excess of $25 may preclude out-and-out bribery, but it does not ensure that a buyer will exercise his or her procurement judgment with prudence rather than prejudice. No money may pass hands, and yet a buyer can still be seduced by all sorts of perks and sales incentives to purchase a product or service without an honest and responsible consideration of its ultimate appropriateness for the company. Moreover, no conflict-of-interest or record-keeping policy will prevent the same manager from massaging information in such a way as to make his or her purchasing decisions look better than they actually are.

The manager who develops a fine series of specific shalt-not's as a way of providing ethical leadership in the corporation quickly discovers that there is always someone else who can find a way around the rules, or that market conditions have developed that the rules never anticipated. This is not to say that rules are unimportant, but only that, on their own, they do not address the full range of ethical problems a manager confronts. As the saying goes, when it comes to personal integrity, the law is better understood as a floor than a ceiling.

Response 3. Explicitly Articulating a Business Philosophy

A third way of approaching the moral issues of business is to establish an overarching, explicit set of ethical *standards*—not just prohibitions—concerning the goals of the company and the means by which individuals are to carry them out. Here we can learn much from the Japanese business leader who considers the publication of a personal "business philosophy" to be an essential requirement of the top post. These statements do not address moral concerns in abstract isolation. Rather, they describe the company's business standards in integrated terms: they combine management's personal moral commitment with economic goals and cultural values. From the practical standpoint of how a manager really thinks, "being honest," "having fun," "being innovative," and "delivering a top-quartile return on equity" are all related.

Call such a mindset a philosophy, or an ethos, or just plain "the basics." What it expresses are the commitments managers feel are possible or impossible for themselves and their company to entertain. As stakeholders become more aggressive about what they expect from the corporation, and the workplace more diverse, the articulation of these commitments in advance becomes increasingly important.

Many of the CEOs quoted in this book feel that it is a fundamental responsibility of management to provide visible and direct leadership in articulating "what the company stands for" through a credo or mission statement. Others feel such values should be informally communicated. Whatever form it takes, the systematic exploration of those values, goals, and outcomes that describe "what the company stands for," or "who it is," is the first step in bringing the moral dilemmas of business to responsible solution.

TAKING THE FIRST STEP

Having argued for the application of one's personal sense of ethics to the problematic issues of business, an articulation of the general characteristics that define "ethical" and "responsible" management is helpful in grounding the discussion at the outset. John L. Casey, managing director of Scudder, Stevens & Clark, has written an excellent book on ethical issues for the financial manager.[6] At its outset he notes that the word *ethics* can itself be a "put-off." Many a manager seeking to discover an appealing title for a business ethics seminar would agree. Other words for morality in business are equally troublesome. In an echo of former grandeur, Chester Barnard's now-classic description of management, *The Functions of the Executive,* describes the morality of the effective manager with terms like *foresight, long purposes*, and *high ideals.*[7]

The term I find most useful for describing ethical decision making is not business ethics but *business integrity.* J.C. Penney's Don Seibert uses it in the title of his book on business

[6] John L. Casey, *Ethics in the Financial Marketplace* (New York: Scudder, Stevens & Clark, 1988).
[7] Barnard, *The Functions of the Executive*, p. 282.

ethics. Management professors Joseph Badaracco and Richard Ellsworth claim that integrity is the ultimate responsibility of corporate leadership; Tom Peters cites integrity as the final essential condition of managing change.[8] Nearly every business ethics document cites integrity as an essential component of good business practice.

What does integrity mean? What does it describe? In our pluralistic and individualistic society, is it a problematic, semimystical concept or is there a set of traditional values that people generally use to describe ethical behavior? Johnson & Johnson's former chairman James Burke has often claimed that the company's Credo describes "the common denominator" everyone can believe in. Is he right? Is there an uncontroversial agreement about moral ideals, or must a manager resort to tightly reasoned philosophical definitions in order to analyze ethics and management?

I have polled literally thousands of lower-, middle-, and top-level executives about their personal values, and I have discovered that Burke is indeed right. There are certain values that drive people's idealism with relentless regularity. What, I ask executives, drives *you*? What can't you live withou and still be able to look at yourself in the mirror? The sam set of values is voiced with little variation:

Honesty	Family
Integrity	Achievement
Trustworthiness	Reliability
Respect for other people	Fairness
Self-respect	Loyalty

Love, religion, and hard work are also cited with regularity if not unanimity.

With the exception perhaps of being clean and cheerful, the previous list sounds very much like the Boy Scout pledge, or Herbert R. Taylor's Four Way Test which was

[8]Donald V. Seibert and William Proctor, *The Ethical Executive* (New York: Cornerstone Library, 1984); Joseph L. Badaracco, Jr., and Richard R. Ellsworth, *Leadership and the Quest for Integrity* (Boston: Harvard Business School Press, 1989); and Tom Peters, *Thriving on Chaos* (New York: Harper & Row, 1987), pp. 45–46.

adopted by the Rotary Club.[9] And that is the point. These are not mystical concepts but part of our everyday commonsense descriptions of what makes up personal integrity. When I ask groups of college students the same question, the overwhelming majority cite the same values as ideals.[10]

On the other hand, agreement about ideals does not mean agreement about application. Abortion, for example, may or may not be considered an act of fairness, love, or respect for others. Hard work, when overdone, may be felt to harm the family even though it is intended as an expression of commitment. Honesty at the expense of career may seem an acceptable trade-off or not.

But it is important to note that, despite disagreement about specific applications, the terms are not meaningless. Ethical idealism is not totally relative even in pluralistic America. The many groups I polled have never suggested that their ethical ideals centered on, say, sadistic hedonism or uninhibited exploitation or rampant discrimination. Even though such values sometimes hold sway over management thinking, they are not hailed as acts of integrity.

HALLMARKS OF BUSINESS INTEGRITY

On this basis it is possible to use this list of values as a starting point for my discussion. Working from nearly two hundred corporate ethics codes gathered by the Business Roundtable, interviews with literally thousands of executives, and drawing on pro- and antibusiness articles in the general press, I would suggest that the generally same standards of decency drive our society's definitions of business integrity. Thus a general description of business integrity would comprise the following basic values.

[9]The Rotary's Four Way Test is:

1. Is it the TRUTH?
2. Is it FAIR to all concerned?
3. Will it build GOOD WILL and BETTER FRIENDSHIPS?
4. Will it be BENEFICIAL to all concerned?

[10]In my experience, despite much evidence to the contrary in terms of behavior, few people put making money and gaining material possessions on a list of ideal values. On the other hand, annual surveys by the Council of Higher Education have revealed that college students do not hesitate to cite materialism or career ambition as one of their chief *pragmatic* goals.

- *Honesty*—accuracy in assessing and representing the business and any activity relevant to a business.
- *Reliability*—being consistent in action with one's purported values. This can imply anything from consistently living up to product claims to not punishing employees who live out the standards you claim are integral to the business.
- *Fairness*—balancing the rights of various constituencies with consistency and goodwill. While companies differ strongly in terms of how far they will carry their sense of stakeholder responsibility in noncommercial relationships, there seems to be more agreement over the commercial manifestations of the ethic: fairness means adopting neither a totally buyer-beware nor seller-beware ethic. Rather than assume exclusive responsibility for every unforeseen outcome of a transaction, the seller accepts responsibility for keeping the specific promises that are made or implied to customers and employees.
- *Pragmatism*—making concrete contributions to the ongoing financial and organizational health of the business.

These four hallmarks of business integrity cover a wealth of ethical issues in a commonsense way. The first three preclude deception, intentional injury, favoritism, conflict of interest, and the abrogation of responsibility to pay for mistakes. The last precludes all forms of white-collar crime, inefficiency, and waste. It also precludes out-and-out philanthropy and, to my mind, implies high quality, in that there is not a company in the world that could market poor quality without compromising its honesty. Even if no injury is involved, a company that covers up or ignores poor quality has no choice but to lie in its representations to the public and shareholders, thus it automatically fails to fulfill the conditions of integrity.

Most important, *integrity is a condition that demands that you walk as you talk.* At its heart it means living up to what you imply is the right thing to do. It means that other

people can depend on you to maintain standards of honesty, fairness, and financial prudence even when the going gets tough.

Another way of understanding the meaning of business integrity is put your choices and habits to two tests:

1. Do these decisions contribute to the good reputation of a company or a manager?
2. Do these decisions promote trust?

The two questions are obviously interrelated. Taken together they describe the bottom-line reference point for creating successful negotiations, successful cooperation, and successful investment mechanisms. When the exploration of ethical issues begins to create more heat than light, the two issues, reputation and trust-creation, can help put the discussion back on course.

Most important, the conditions described in the two questions and suggested as the hallmarks of business integrity do not run counter to values by which executives tend to define personal integrity. As such, their creation provides a first step in breaking out of the "business-ethics-is-a-contradiction-in-terms" mentality which has shackled so many attempts to advance managerial understanding in this area.

3

Setting a Leadership Standard

Leaders owe a covenant to the corporation or institution which is, after all, a group of people. Leaders owe the organization a new reference point for what caring, purposeful, committed people can be in the institutional setting.*

With a general definition of business ethics established and the hallmarks of business integrity suggested in Chapter 2 serving as general guidelines for testing the meaning of the concept, it is possible to move on to the basic problem at hand: *How does the business leader successfully bring these values to bear on his or her own task?* Is integrity an ivory tower statement of idealism reserved for inspirational speeches but not strictly applied for fear it will be economically dysfunctional? Is it an automatic accompaniment to market success, in no need of separate analysis and attention? Or does business integrity represent a distinctive approach to management, not economically dysfunctional, but also not synonymous with purely economic reasoning?

I argue that business integrity falls into the last category. Managers of integrity do not make choices that are either-or in terms of pragmatism and idealism; rather, they

*Max DePree, *Leadership Is an Art* (Garden City, NY: Doubleday, 1989), pp. 32–33.

function in ways that are both economically healthy and morally sound. They are able to integrate (and inspire in others) excellent economic rationalism with the less-rational, other-oriented values' preferences which comprise most executives' private definitions of morality, as seen in Chapter 2. These values are not automatically operative if one applies only economic rationales.

A CASE OF MORAL BUSINESS LEADERSHIP

The Tylenol crisis is a good example of the kind of moral business thinking I am talking about. In 1982, executives at Johnson & Johnson received the shocking information that several poisonings had occurred in the Chicago area, apparently after the victims had taken Tylenol in capsule form. Lab tests confirmed that the capsules had been laced with cyanide. In the first twenty-four hours of the crisis, no one could identify the source of the poisoning: was it a disgruntled employee, a manufacturing mistake, or had someone contaminated the capsules outside the plant, either en route to or in the stores? Subsequent information overwhelmingly indicated that Johnson & Johnson's manufacturing process had not been at fault, and that the poisonings had most likely occurred after the capsules had left the plant. No one, however, could provide a definitive answer as to how the tragedy had been orchestrated, or how many other capsules might be contaminated.

Although the Tylenol market represented $100 million annually, and provided pain relief to many people, Johnson & Johnson recalled all Tylenol products. Experts thought it unlikely that other forms of the product were contaminated, but the company was taking no risk of a repeat or copycat poisoning.

Tylenol's reintroduction has become a marketing milestone. Having already won high marks from the public for the recall, Johnson & Johnson cemented that goodwill by widely publicizing its response to the crisis. Once Tylenol had been reintroduced to the market, consumers were given a toll-free hotline to call, and a certificate for a free replacement was offered to anyone who claimed to have destroyed the

drug. Within eighteen months, Tylenol had regained nearly all of its lost market share.

Some outside managers have argued vehemently that there was nothing extraordinarily ethical or unusual about Johnson & Johnson's response. To them the problem was purely one of marketing, and the response a calculation of risk and reward. Supposedly any good marketer would have made the same decisions purely from the standpoint of self-interest.

I strongly disagree. Those who view the J&J response in these terms fail to account for and understand all the components of chairman James Burke's thought processes, not to mention those of the other managers who contributed to the two-hundred-plus decisions that had to be made in the first twenty-four hours of the crisis.

Having personally interviewed the three top officers involved, I am certain that no textbook marketing analysis could quantify or even identify the factors that informed their strategy. *From an economic and public relations standpoint one could have made a very reasonable argument for keeping the product on the shelves*: the contamination was not the company's fault and did not appear to have originated from a J&J facility; this was an isolated incident, the result of aberrant behavior; the benefits of the product to the majority of the public vastly outweighed the injuries that might occur if the product remained on the shelves. A savvy public relations person might have adorned this strategy with a limited gesture of goodwill by withdrawing the product from the Chicago area only. It would be difficult to argue against such a strategy on marketing grounds, were it well executed. Most likely, if measured by sales rather than opinion, it would have been seen to be convincing to most customers. After all, when glass was found in Gerber baby food jars several years later, that company was able to recover successfully by issuing only a limited product recall.

And yet a Gerber strategy would not have been morally indistinguishable from a total recall for Johnson & Johnson. As James Burke announced at the outset, Tylenol tested the very core of assumptions driving the firm's past success. Johnson & Johnson had always maintained explicitly in its Credo and implicitly in its advertising that its primary concern

was for its customers. Toward this end, J&J strongly emphasized product safety, quality, and reliability. Sterile dressings could be relied upon to be sterile. Company revenues would be distributed in such a way as to maintain strong research and development. But Tylenol was no longer reliable. Any strategy that hinted at a bias toward company profit over user interest or at the expense of public safety would deny these values. It would render the Credo claims dishonest and top management itself unreliable. In Burke's own words, their first priority was to remain true to the Credo (see Exhibit 3-1).

Several aspects of Burke's Credo approach are noteworthy. Although he was obviously concerned about the financial implications of the crisis, his first commitment was to the entire array of Credo values, which clearly defined profit as a *result* of customer and public responsiveness rather than the first goal and perspective for decision making.

Thus thinking about profit would not suffice as a substitute for thinking about Credo commitments in noneconomic terms such as trust, health, safety, and public satisfaction. In the end, this strategy was, from every point of view, successful. Tylenol was again profitable and public confidence as measured in a number of surveys and press coverage was greatly increased. Trust was also increased inside the company. Burke had launched an extensive program to revitalize the Credo throughout the company just prior to the first Tylenol crisis. His own commitment to the document's philosophy was clear, but the Tylenol crisis would test whether the Credo really meant anything. Clearly it did. As one manager later told me, "Tylenol was the tangible proof of what top management had said at the Credo challenge meetings. You came away saying, 'My God! You're right. We really do believe this. It's for real. *And we did what was right.*' "

Jim Burke's response to the Tylenol crisis integrated economic reasoning with the hallmarks of business integrity. As a leadership philosophy this way of thinking is difficult to identify and analyze because of its qualitative nature and the fact that it does indeed work in synergy with profitability goals.

If one is cynical or downright hostile to the proposition that ethics played a role, one could easily make the mis-

Exhibit 3-1
THE JOHNSON & JOHNSON CREDO

Our Credo

We believe our first responsibility is to the doctors, nurses and patients,
to mothers and fathers and all others who use our products and services.
In meeting their needs everything we do must be of high quality.
We must constantly strive to reduce our costs
in order to maintain reasonable prices.
Customers' orders must be serviced promptly and accurately.
Our suppliers and distributors must have an opportunity
to make a fair profit.

We are responsible to our employees,
the men and women who work with us throughout the world.
Everyone must be considered as an individual.
We must respect their dignity and recognize their merit.
They must have a sense of security in their jobs.
Compensation must be fair and adequate,
and working conditions clean, orderly and safe.
We must be mindful of ways to help our employees fulfill
their family responsibilities.
Employees must feel free to make suggestions and complaints.
There must be equal opportunity for employment, development
and advancement for those qualified.
We must provide competent management,
and their actions must be just and ethical.

We are responsible to the communities in which we live and work
and to the world community as well.
We must be good citizens — support good works and charities
and bear our fair share of taxes.
Ve must encourage civic improvements and better health and education.
We must maintain in good order
the property we are privileged to use,
protecting the environment and natural resources.

Our final responsibility is to our stockholders.
Business must make a sound profit.
We must experiment with new ideas.
Research must be carried on, innovative programs developed
and mistakes paid for.
New equipment must be purchased, new facilities provided
and new products launched.
Reserves must be created to provide for adverse times.
When we operate according to these principles,
the stockholders should realize a fair return.

Johnson & Johnson

take of dismissing the "soft" concepts that informed Burke's words and the Credo itself as merely voicing the company's long-term economic interests. One could rationally calculate that J&J *had* to be honest and self-sacrificing because that would pay in the long run. There really was no ethical issue, because the right ethical choices were obvious *from an economic standpoint.*

Such thinking basically dismisses the need to legitimize ethical discussion and denies ethical uncertainty. It is a comfortable approach to managerial integrity and ethical problem solving. It asserts as the primary value the one that is least controversial in business thinking, namely, that managers *must* think about a company's profit. It holds that the vocabulary of profit provides sufficient ethical guidance for the manager, and that asking what makes commercial sense will stimulate an ethical response. Anyone with good economic sense could have come to the same marketing decisions as Burke and his team without all the semimystical language about trust and Credos

But to dismiss the Tylenol response as one of simple market sense is to fail to understand the full range of values that informed Jim Burke's leadership and caused Burke and his team to come to the conclusions they did as fast and unambiguously as they did. At the very least, the recall required an unequivocal commitment to public safety, even at the risk of heavy short-term penalties to the bottom line. This risk was real and its advisability controversial. By the company's own account, it was not automatically clear to anyone what would be the right thing to do. Even though in the end they were morally and economically sure of their decision, no one could guarantee that the company would recoup its losses in this heavily competitive industry. Nor could it be argued that *not* recalling the product would necessarily incur a costly drop in public confidence in the company.

The only way the managers could come to the conclusion *quickly* that a recall was right, given the extreme uncertainty of the situation, was if they had a point of view that respected public safety, valued product reliability, and recognized that good management must be measured in long-term calculations. These are a complex set of managerial assump-

tions which integrate rational economic concerns and nonrational ethical values in a synergistic way.

THE ETHICAL LEADERSHIP CHALLENGE

The ability of a James Burke to inspire this kind of thinking throughout a large organization rests on four essential character traits. Together they comprise a portrait of the kind of leadership that is critical to the fulfillment of ethical standards in large organizations today.

Quality 1. Ability to Recognize and Articulate the Ethics of a Problem

It is very easy to identify the ethical issues of a business situation in the hothouse environment of a case study or under the magnifying glass of a hostile press. It is far more difficult in the heat of the fray. Volvo's chairman Pehr Gyllenhammar asserted that understanding moral values "is really the thing leadership is about." Public opinion surveys in Sweden confirm Gyllenhammar's theory: his own repeated articulation of values in connection with Volvo's activities has made him a more trusted and recognized figure than the prime minister!

One of the comments I hear most frequently in corporate ethics seminars is: "Of course when you think about it, there's obviously an ethical issue here. I guess I just never thought about it that way before."

Jim Burke's up-front assertion that Tylenol was going to be the ultimate test of the Credo was an overt demonstration of moral sensitivity. He did not view the crisis as a tactically difficult marketing problem, but rather as a marketing problem that posed monumental ethical difficulties.

Moral leaders in the corporation have an unerring sense that the ethical stand, however commonplace from the standpoint of philosophical analysis, cannot be taken for granted or left to the interpretation of others. They recognize that without explicit signals from the top, other employees and

managers are likely to ride a roller coaster of morality, high when it is to their advantage, low or passive when financial or career penalties threaten.

When Donald Melville became the top officer of Norton Company, his first act was to read the company's ethics code at a meeting of senior managers. Melville prefaced his remarks with the observation, "This is what I believe is the way to do business, and what I expect from all of us." Then-chief operating officer and current chairman David Nelson noted, "At first I thought with embarrassment, 'He's not really going to do this is he?' But then, after he went through it and added his own thoughts on what some of the problems might be or what the words might mean, it had a great impact on all of us. We knew there would be no nonsense on ethics. That made it easier for me to keep my people conscious of our business standards."

Quality 2. The Personal Courage Not to Rationalize Away Bad Ethics

As former Norton chairman Robert Cushman told his employees, "I've had to live by certain rules and so do you." When Colgate-Palmolive acquired a leading toothpaste manufacturer from Hong Kong whose top-selling product carried the brand Darkie, chairman and CEO Reuben Mark took an unambiguous stand: "It's just plain wrong," he said. For three years Mark continued to track the issue, urging Colgate executives to rename this important product. The new brand name and logo were similar enough to the old to retain customer loyalty but the racial content was entirely removed.

Ford Motor's former chairman Philip Caldwell reports that during the late 1970s the most difficult thing for him and the board at Ford was to ask, "What are we doing wrong?" Admitting that there was a problem was extremely threatening and contrary to the corporate culture. It took tremendous character and moral sensitivity to insist that the entire company, from boardroom on out, ask that question honestly, rather than cook up rationalizations for poor performance.

ITT's chairman Rand Araskog has had his share of unpleasant surprises over the years. One of the most painful

was the discovery that an ITT general manager had illegally shipped embargoed trade goods under disguise to Iran during the 1979 hostage crisis. Araskog fired the manager and several people under him, and made it known throughout the company. Reflecting on the incident, Araskog felt that his most important task was to make sure that every employee was aware of top management's intention to monitor and punish ethical slipups. Araskog sums up his attitude as follows: "The most essential thing for us is integrity. The thing that has people in my office in five minutes in a rather intense meeting is any ethics or legal problem that would threaten the character of this company."

To appreciate the impact of Araskog or Caldwell's outlooks, one need only look at how many companies stonewall on employee wrongdoing, fudge product quality problems, and generally gloss over ethical dilemmas rather than risk spreading a tainted image. Harvard Business School professor Abraham Zaleznick, in commending General Dynamics chairman David S. Lewis for announcing his retirement one day after the Navy suspended the company from defense contracting, has said:

> We don't do enough of that [Lewis's acknowledgment of the problem] in American business. In Japan, it's common for the head person in the face of a disaster to publicly apologize. In America, there's a tendency to pass the blame on.

Zaleznick went on to say that he felt that a strong figure at the top who would acknowledge ethical problems in the company and take a stand alleviated employee anxiety and disloyalty. Stonewalling tended to make employees more anxious and likely to make worse decisions.[1]

Quality 3. An Innate Respect for Others

Call it street sense, high on people, or simply a good business nose, the foundation of good management is the busi-

[1] "When Scandal Haunts Company Corridors," *New York Times*, July 7, 1985.

ness leader's ability to step into the other person's shoes. An other-orientation that goes beyond a calculation of self-interest is implied in many of the values people list as most important to them. Honesty, love, fairness, being true to your word, caring for family are all commitments to other people. This sense of commitment is not a theoretical, rational calculation but a character trait psychologists and philosophers describe variously as empathy, self-sacrifice, or altruism. Whatever the label, such a capacity stands far removed from the self-serving image that cartoon stereotypes of business greed suggest and that some managerial approaches encourage.

Consider the bold phrase that often appears in sa recruiting: "Are you money-motivated?" Or the investme banking manager who unabashedly asserted that his busine had to be run by greed. Compare these self-interested orient tions with IBM's legendary attention to customer service an good employee relations. Ask yourself which companies r spect other people. If the relationship of respect to curre performance is not obvious, ask yourself which company yo would expect to be in business ten years from now. Mar analysts attribute Big Blue's past success to Tom Watson's nu turing respect for others. So, too, David Packard's outstandin leadership in the computer industry has been marked by a almost legendary concern for other people. Stories about hi personal support of employees during economic recession an his fanatical concerns for customer satisfaction are a test mony to his consistent ability to respect the welfare of other in making business decisions.

Max DePree, chairman of Herman Miller, one of the consistently most profitable companies in America, described his innate sense of respect for others vividly when he commented, "I always try to make space to hear what others are saying. My people know that I don't look down on anyone, and conversely I hope that they have a sense of respect for me." Once, during the monthly brown-bag lunch with first-level managers, a supervisor somewhat evasively asked DePree about compensation. DePree embarked on a major analysis of how first-line managers and hourly employees regarded the company's wage scale. His genuine concern for their welfare and for fairness eventually led him to initiate a policy limiting

the gap between the lowest and highest salaries in the company. (DePree has been listed by *Fortune* magazine as one of the nation's top CEOs.)

Quality 4. Personal Worth from Ethical Behavior

The ethical leader quite simply gets high on his or her own sense of personal integrity. Elmer Johnson, former executive vice president of General Motors and long-time partner at Chicago's prestigious law firm of Kirkland & Ellis, has frequently articulated the need for managers to take a strong and overt ethical stand. He believes that doing so usually results in better management decisions. He also feels that it has an intrinsic value. "In the end you don't take the ethical road because it makes money or makes sense from a company morale standpoint. You take it because you know it's right. At some point you have to feel that it's important for *you* to do the right thing." How different the attitude of the so-called yuppie manager, whose possession of material goods becomes the overriding indicator of personal worth.

These four character qualities of ethical leadership describe a person who confronts the issue of ethics and business deliberately and comes out strongly on the side of an overtly moral orientation, one motivated by more than a rational choice of management philosophies. Such values and personal courage hold up over time and ring true in an age of extreme self-aggrandizement. When ITT's chairman Rand Araskog was again faced with a contract fraud recently, he immediately ordered an internal investigation and six employees were fired. When Johnson & Johnson came through the Tylenol crisis with distinction, it had to turn right around and deal with a recall of another important product, Zomax. It would have been very tempting at that point to rely on the goodwill from the Tylenol recall to keep Zomax on the market while new labeling was being prepared. But as Burke said, "We knew we had to do the right thing again; and believe me, even though we were exhausted from Tylenol, that was no excuse not to do the right thing."

These biases and the patterns of thinking they engen-

der can be analyzed and emulated. There are also other familiar patterns of commercial thinking that tend to obstruct the accomplishment of business with integrity. In the following chapters I argue that one approach to management responsibility, namely, the ethic of enlightened self-interest as described by Milton Friedman and others, is actually suppressing the kind of thinking it is intended to stimulate. James Burke and many other successful corporate leaders seem to follow a set of assumptions that in fact turns the Friedman ethic around 180 degrees. Not only is their approach commercially successful, it succeeds in integrating those moral values we purport to hold dear. Such a prospect offers the revolutionary proposition that personal morality and the ethical norms of commerce are inextricably linked.