

2. Ethics Carrots & Sticks: The Motivational Challenge

Executive Summary

We can't assume or take for granted that everyone wants to do the right thing or run an ethical organization so we must address the motivational angle. Running through this discussion are two basic motivators: fear (of negative consequences) and love (passion and desire for positive consequences). Ethical leaders will need to use a dose of fear once in a while but should accentuate the positive, i.e., "we can achieve our vision if we will treat others fairly," etc.). There is an eight-reason business case for ethics. The first four reasons have to do with the context or environment in which business operates. Ethical businesses (1) minimize or avoid litigation, (2) enjoy greater regulatory freedom, (3) have public acceptance and a good reputation, and (4) are environmentally sustainable. The second four reasons concern the core components of the business. Ethical businesses (5) build investor confidence, (6) enjoy business partner trust, (7) have loyal customers, and (8) recruit and retain high performance employees. Finally, some managers and leaders will find it possible to motivate their people by appealing to one of four deeper reasons, i.e., (9) personal pride and honor, (10) corporate mission and identity ("this is just who we are as a company"), (11) corporate citizenship (our duty to our host government and community), and (12) "just because it's right" (the intrinsic rightness of it all). A motivation audit form is included.

What motivates the behavior and ethics of individuals and organizations? Some people and companies are exemplary in both business excellence and business ethics. What can we learn from them about motivating this kind of positive performance and achievement? Other people and companies are doing unethical things and we'd like them to stop, to change their ways, even though old habits are hard to change. We've got to address this motivational issue, figure out how to motivate more ethical business, then train and educate everyone involved. We just can't skip over this issue.

When I was a full-time professor teaching ethics to university students, I didn't pay enough attention to the motivational side of ethics. My students were already motivated to learn the material by the grade hanging over their head. As I moved from the academy to the

marketplace, academic grades and degrees no longer mattered to my audiences, and I had to begin building a different sort of case.

Getting Employees Interested

An initial question is how to get company personnel interested in ethics training and performance. The answers are fairly obvious at this level. Be sure the ethics training is interesting and practical; make the training a pleasant experience; give away coffee cups, certificates, and other items to those who complete training programs; recognize and praise individuals and teams for displaying good ethics; make ethics part of employee performance- and self-reviews, and so on. Ask other companies and training leaders what their most successful motivators have been.

Obvious steps: Make ethics and values performance part of annual reviews (individual, departmental, company-wide). Make ethics training interesting and practical. Give recognition to exemplary ethics. Reward and recognize completion of ethics training.

All of this is important but it is still not very deep. Why is good ethics important to me in my career and to the company and its success? It's not just because I'll get some trinket or certificate, or even a raise in pay for completing ethics training exercises. As I reflected on this question, I came up with a list "seven good reasons to run a business in an ethical manner." As I discussed and debated it with colleagues and friends in both business and academia, the list grew . . . to eight . . . then nine . . . and finally *twelve* good reasons.¹ All of these twelve will not be equally *convincing* to everyone. All of them are not equally *appropriate* to every business context. Think of this list as a sort of menu from which to order what you need. Take a careful look at the twelve reasons and then construct the most convincing and appropriate case possible for your company and context.

Love and Fear, Carrots and Sticks

Running through all twelve reasons are two very basic motivational forces: *love* and *fear*. "Carrots and sticks." Fear of the stick and love of the carrot. Ethical behavior and change is more complicated than simple fear or love by individual agents, of course. Context matters a lot. People behave better, sometimes, because the temptation or the opportunity to misbehave have disappeared. Because of this reality, we must pay attention to the environments and structures we create---not just to the will and choice of individuals and groups. Removing temptations and possible incentives to act unethically is important. Nevertheless, all

¹ "Nine Good Reasons to Run a Business in an Ethical Manner" was published by Al Erisman and me in our *Ethix Magazine* (Issue 22, March-April 2002, p. 11). I would not have included the "Just because it's right" argument (number 12 on the list that follows) without Al's strong insistence. We don't all have to feel the force of these various arguments in the same way. What we want is to find meaningful, effective ways of persuading businesses to do the right thing. We can leave the metaphysics to someone else.

temptation and opportunity cannot be eliminated. Freedom (basic to a “free” enterprise system) presents an opportunity for ill as well as for good.

So we return to fear and love. Think about how fear can affect us. People sometimes act a certain way (or change) because of

Fear of death, sickness or injury (so we might quit smoking or other risky behavior--- although sometimes people give up and go off the deep end, despite their fears);

Fear of failure, disgrace, and shame (sometimes we shape up and change our ways, sometimes we cheat and lie to try to stave off the inevitable);

Fear of financial loss, penalties, or disaster.

We could extend the list considerably. Many of the “Twelve Reasons to Run a Business in An Ethical Manner” contain a “fear factor.” And that’s not all bad. Sometimes we *should* be afraid and change our ways. Sometimes we should instill some fear and reality in our employees and colleagues. Sometimes we are living in a dream world and need to wake up and change our ways.

Fear is a strong motivator and good leaders need sometimes to “put the fear of God” into the troops; but as soon as the threat subsides the old ways can reappear. And will business creativity and excellence really flourish long-term in a repressive, fearful atmosphere?

Machiavelli argued that, if they had to choose, it was better for princes to rule by fear than by love. In my view it is the opposite: better to rule by love than by fear (though a dose of the latter is sometimes appropriate). For one thing, love can operate in a more long-distance fashion. Fear is a great motivator---as long as it is a felt threat. When it is removed it is easy to slip back into our old ways. Think of how some long time smokers or overeaters suddenly shape up when given a bad report of serious threats to their health—but then relapse immediately when they get a better report. Think of how some individuals will be unfaithful as long as the fear of discovery is low or nonexistent; but think of how rigorously faithful someone is who is deeply in love, even with a distant lover.

What I mean by *love* is a “passionate desire” for something. Why does someone known as a kind of “slob” undergo an amazing change and start dressing and acting in “sharper” ways? Often it is because he or she has fallen in love with someone and is now all about impressing and winning the object of affection. Love (passionate desire) for a particular job one has applied for might (alone) get someone to clean up their act. Love of money and material things, love of praise, fame, power, or God, also get a lot of people going. Later in our discussion of business mission and vision (Chapter Four) we will reflect more carefully on what

sorts of goals and purposes move individuals in positive and ethical directions. The wrong love can wreak havoc. But the basic point remains: people change because of passion (love) for things. There is a “love factor” along with a fear factor embedded in most of the twelve reasons which follow.

Love (passion and desire) is a powerful motivator, even at a distance. But what we love has a lot to do with how we behave. We need an inspiring, worthy object to love and pursue.

Twelve Good Reasons

There are at least Twelve Good Reasons to run a company in an ethical manner; twelve reasons to recruit, hire, and continuously train an ethical workforce; twelve reasons for leaders to focus some serious attention on building ethically-healthy organizations. We can simplify things a bit into *three categories*: four external reasons, four internal reasons, and four deep reasons. The basic motivations of fear and love run through all twelve reasons in the sense that there is trouble to be feared and success or satisfaction to be pursued. A business can work it either way motivationally. My recommendation is: a little fear and realism, a lot of passion and love.

Four External Reasons to Build An Ethical Business

The first set of reasons for businesses to care about ethics relates to the political-social-natural environment in which a business must operate. It has to do with keeping good relations with the communities, political authorities, neighborhoods, and ecosystems in which a company is based. This context around a business can gradually become hostile or negative or apathetic toward a business---or it can suddenly slam down and crush a company. We ignore these external factors and forces at our peril.

Reason #1: Litigation & Penal System Avoidance.

The first reason to be ethical in business is to reduce the likelihood of getting arrested, indicted, convicted, fined, or imprisoned. A long list of business leaders is today suffering the consequences of illegal behavior. Boeing, one of the world’s great corporations, with a large ethics office and mandatory training programs for employees, saw Michael Sears, once in line to become CEO, indicted, tried, convicted, and sentenced to four months in prison, \$250,000 in fines, two years’ probation, and 200 hours of community service. He was abruptly fired after a promising 34-year career, losing an estimated \$10 million in salary, stock benefits and future compensation. A management book Sears was about to publish, “Soaring Through Turbulence,” was withdrawn after his arrest. Boeing CEO Phil Condit resigned under a cloud

shortly after Sears was fired. Condit's successor, Harry Stonecipher, announced that he had "the highest confidence in the integrity and systems of the Boeing Company" and would "exert all energy to address any inadequacies that need to be corrected." (*New York Times* 10/2/04), but was fired a few weeks later for his own personal ethical lapses. John Rigas, Jeffrey Skilling, Bernie Ebbers, Sam Waksal, Martha Stewart: the list goes on for pages.

The Enron and Arthur Andersen stories show that it is not just individuals who get caught and punished, whole companies can go out of business. These stories of high profile misbehavior landing people and companies in court (and often prison) go on and on, day after day, in our business news. Small businesses, and employees at all levels, also get caught, sued, convicted, and fired, for behavior that starts by not caring about basic ethics. It's a career-wrecker and a company-wrecker.

Unethical behavior easily descends into illegal behavior. But even if you manage to get off legally unscathed, think of how much money must be diverted to legal defense rather than into research, product development, marketing, and other activities which add value.

Running a business in an ethical manner helps a business avoid trouble with the law in four ways.

First: while ethics is more than compliance, *legal compliance often stands as a sort of "minimum ethics."* Respect for the law is the first step in being ethical, most of the time.

Second: simply having an ethics and compliance program *can significantly reduce any fines and penalties* if you do get caught doing something wrong. Not a very high-minded reason to care about ethics but it still counts: the United States Federal Sentencing Guidelines for White Collar Crime (1991) specify that companies which create Compliance and Ethics programs can have their penalties reduced by up to 40%..

Third: ethical guidelines *establish a company's behavioral boundaries a safe distance within the law.* Thus, the law may permit a greater exploitation of customer data (or a larger dose of impurities in a food product) than a company believes is ethically right. But a company that works the extreme edges of the law is more likely to step over the line and get into trouble.

Fourth: laws are best at telling us *what not to do*---while ethical principles often give us not just negative boundaries but *positive standards and ideals to aim at.* (In Chapter Six, below, we will take a close look at ethical boundary and mandate guidelines). An ethical guideline like "treat

all customers with respect, consideration, and friendliness” creates a different business from one which tries only to avoid getting indicted or sued for questionable handling of customer transactions. Think about it: if your customer service or sales people are only guided by the limits of the law, that creates a much different (and riskier) environment than one in which their conscious thought is focused on providing excellent service with integrity.

Reason #2: Regulatory Freedom.

The second good reason to be ethical is “regulatory freedom” or “red tape avoidance.” Red tape (bureaucracy, regulations, forms, etc.) can eat up a great deal of time and money. All regulation is not bad of course. Some is always necessary to help level the playing field and establish fair “rules of the game.” It is not true that healthy capitalism needs only the “invisible hand” of the market. Just ask those doing business in Russia after the fall of the USSR or take a look back at the unregulated vices of the Robber Barons who led American business in the late 19th Century. Anarchy is not the context in which markets thrive.

But excessive or poorly drawn regulation harms business and then society as well. Provided there is a basic, adequate legal and social infrastructure, business thrives on maximized freedom. Red tape, bureaucracy, and excessive regulatory demands inhibit free enterprise, promote conformity, restrain innovation, and mishandle novel situations. Government will always, inevitably, be somewhat ham-fisted in its regulations. Given the complexity of each field, insiders and practitioners are usually the best positioned to know how to operate ethically in their own domains. But if they fail to self-regulate, government will step in. If businesses abuse their freedom by doing things that, while legal, are unethical, legislative agencies will create new regulations to prevent such abuses. If we want freedom, *we must regulate ourselves* by sound ethical values. “Govern yourself, or be governed” is another way to put it.

Two recent examples are the legislation prohibiting telemarketing calls and the Sarbanes-Oxley legislation which followed the Enron and Andersen scandals. The sins of the few brought regulatory compliance costs to the many---some estimate an annual Sarbanes-Oxley cost of 30 billion dollars to American business. For their part, if telemarketers had used some self-imposed restraint they might still be in business.

If excessive compensation and stock options are given to CEOs without shareholder approval and strong performance, if computer users suffer from excessive spam (over 50% of all e-mail now is unsolicited junk), if medical experts (nine out of ten, they say) write treatment guidelines while having undisclosed financial ties to the pharmaceutical industry, if ranchers

fight efforts to ban the use of sick animals in our meat supply, if big oil drilling companies evade American taxes by taking addresses in Bermuda and Barbados and then turn around and qualify for business contracts open only to American companies, if companies abuse the privacy and confidentiality of customer financial information, if restaurants don't voluntarily follow safe and sanitary food handling procedures, if workers are exploited and harmed, if video game players go nuts, if investment brokers rip off the vulnerable, if boards of directors of publicly-held corporations are hopelessly compromised and ineffective . . . tighter regulations will follow. Of course, thankfully, all businesses do *not* push (or cross) the ethical limits described in this paragraph but these things do happen and if they become more frequent and unchecked are likely to prod greater regulation.

Aggravate people by irresponsible business behavior . . . activate the regulators. Regulatory responses may be slow but they will come . . . and bring a significant cost. Smart business leaders get their companies to self-regulate with sound ethics.

Business is always better off voluntarily creating and submitting to ethical values and principles rather than grudgingly, involuntarily submitting to government laws and regulations. The long-standing, traditional, self-governing practices of nurses, lawyers, clergy, and other professionals are a better way to go. The growing practice of self-reporting on corporate social and environmental responsibility (now being done by more than 500 corporations, including 3M, General Motors, McDonald's, and Siemens) is another positive example.

Reason #3: Public Acceptance & Reputational Capital.

Wendy's lost (permanently) millions of dollars and (temporarily) some 30% of its business after a severed finger was found in its chili in early 2005. It turned out not to be Wendy's fault but rather a scam by a customer trying to collect. But it illustrates the sudden and swift power of public opinion on a business. The obvious impacts of a reputational disaster are customer and investor flight. But it's not just about investors and customers: the whole community perks up.

Think of how Proctor & Gamble has been hurt over the years by false rumors of a Satanic logo. Think of how Arthur Andersen's great reputation vanished overnight with the Enron debacle that some of its people had helped facilitate and cover up. Wal-Mart's expansion plans often face stern public resistance by local people, based on Wal-mart's perceived bad reputation. The point is that if you act (or are believed to act) in an unethical fashion, public sentiment may turn against you in ways that constrict your business freedom and possibilities.

On the other hand, a reputation for being ethical creates a kind of public approval and acceptance that is a business plus. Such a reputation helped Johnson & Johnson to rebound very strongly and quickly from its costly Tylenol scare. Southwest Airlines has built widespread public acceptance because of its values, ethics, and trustworthiness. They have business opportunities almost anywhere they want to go. Competitors fight against letting Southwest into this or that airport---but the people are on their side.

A bad reputation is like tilting the playing field and forcing your team to try to move uphill all the time. Everything gets harder. Doors close and companies are forced to engage in damage control and in aggressive public relations that may not be enough to counter the criticism.

A good reputation is like having the wind at your back. Build a reputation for being ethical and you will likely win public praise, a favorable press, and the conditions and environment conducive to experimentation, expansion, and business success.

Reputational capital and public acceptance are built up by operating in an ethical manner toward your various stakeholders. If you pay attention to this reality you may be lauded in the press. If you don't, investigative journalists (*60 Minutes, Frontline, Mother Jones, Business Week, Fortune*) might feature you in a negative lead story! Old and new activist groups might create a huge ruckus, demonstration, or boycott. The new era of internet-driven transparency makes it increasingly difficult to hide---and increasingly easy to organize. Even a small group with limited resources can affect your company. Better to proactively embrace transparency (and integrity)---than to try to resist and hide. We'll return to "corporate social responsibility" below (reason #11) but it fits here as well. It's not just about avoiding harm and ethical scandal but about a fair (or even generous) contribution from business to its societal and community host.

Of course, the public square is fickle and not always fair. Rumors and accusations can be unfounded. The internet circulates lies as well as truths. The road to rebuilding a reputation can be long, winding, and unfair. The public can remain suspicious and cynical. But all of this is an argument for companies to be proactive in developing a strong and visible ethics and values identity and to take the initiative toward transparency and open communications with the public.

Reason #4: Environmental Sustainability.

My barbecue won't be fired up nearly as often this year. The price of wild salmon (my favorite thing to grill) is double or triple what it usually is. Why has the price jumped like this? Because the wild salmon population has been so badly overfished since 2002 that there is now a serious shortage. Consumers are hurt. The fishing business is hurt. Local seafood

merchants are hurt. Restaurants are hurt. If salmon fishermen don't respect and care for the health of the salmon population, they not only disrespect and harm the salmon population, they undermine their own business. So too the timber industry. Over-log and disrespect the health of the forest, and the timber business will not last long. This isn't just about sympathy for nature (though that is a valid point in its own right); it is about the "bite back" consequences of harming the very basis of our business. We must replenish (or allow nature to replenish) what we use.

It is unethical to harm Mother Nature. Maybe we can get away with a lack of environmental ethics in the short term but there can be no sustainable, long-term success without careful stewardship of the environment and the earth's resources.

Depletion is one major harm to the environment. Another is the pollution of our water, land, and air which makes for contaminated food and sick workers. Again, the bite back effects may be slow, but they can be catastrophic. In more and more cases, human defenders of nature and of human health will come after you if you pollute or harm nature. The wreck of the Exxon oil tanker Valdez, the Union Carbide chemical plant explosion in Bhopal, India, and the toxic waste at Love Canal illustrate how very costly it is, at many different levels, to ignore or violate environmental ethical standards.

The Ford Motor company, ranked last among the six automakers in fleetwide fuel efficiency, experienced protests at more than 100 dealerships across the USA. Greenpeace activists temporarily shut down a Land Rover factory owned by Ford in the UK by chaining themselves to plant equipment. After two years of protests, Dell was forced to change its policy and recycle any computer at no charge from customers who buy a new Dell. Chevron has been challenged by Ecuadoran Amazon and Alaskan Arctic National Wildlife Refuge environmentalists over its business practices.

There is good news though: General Electric polluted the Hudson River with its industrial waste discharges, ruining the fishing industry and related businesses, became a national scapegoat, and was forced to fund a very expensive dredging and clean up process. But now GE's CEO, Jeff Immelt, is leading a campaign, called Ecomagination, to invent green technology at GE. The world seems to be "going green" and GE wants to be the one to service that transition. It's about business, not altruism, Immelt said. (*SF Chronicle* 5/29/05). The inventive Rocky Mountain Institute has shown how ecological practices can lead to greater business efficiency and profits. Bay Area restaurants have discovered that they can make money by going green and sustainable—using locally grown organic ingredients, antibiotic-free

meats, fish species that are not endangered, recycling cans and bottles, composting food scraps, and using environmentally friendly cleaning products.

Just in the past few years, concerns about global warming and climate change and about the political complexities of energy needs and usage have made the environmental ethics and sustainability discussion front and center for many businesses. It is not going away.

Four External Reasons to Build Ethically-Healthy Organizations
Litigation, indictment, & penal system avoidance
Regulatory freedom
Brand reputation, social responsibility, and public acceptance
Environmental stewardship and sustainability

Four Internal Reasons to Build an Ethical Business

The second set of reasons for businesses to care about ethics relates to four key components in almost every business. Every business needs investors---or owners or donors (for non-profits). Every business needs business partners. Every business needs customers (or clients, patients, etc.). Every business needs employees (workers, etc.). My argument is that each of these four components will function better in an ethical company than an unethical one. The argument is common sense—but is easily overlooked. I'll give some examples but they are almost unnecessary.

Reason #5: Investor Confidence.

Tom Friedman's best-selling book on globalization, *The Lexus and the Olive Tree*, describes an "electronic herd" of investors swarming around world markets by means of the Internet, looking for investment opportunities.² Obviously, the prospect of a good return on investment is on the minds of this electronic herd. But these investors want to be sure that the companies to which they give their money will count it properly and manage it securely. Friedman creates the image of putting on a "golden straightjacket" for businesses which agree to submit to basic rules of accounting and ethics. If companies put on this "straightjacket," they receive the investors' "gold." This is not just an issue of third world economies; investors in the USA also punish companies that abuse their trust. Here is the lesson: make investors jittery about your ethics and watch them withhold or withdraw their investments. Without capital there can be no capitalist success

After Enron and other scandals came to light in 2001, *Business Week* editorialized: "There's an unusual kind of mass protest going on in America. A new investor class feels betrayed by the

² *The Lexus and the Olive Tree* (New York:Anchor Books, 2000). Chapters 6 and 7.

financial manipulation, managerial arrogance and political connivance now revealed to be widespread in the aftermath of Enron Corp.'s collapse. These investors are educated, suburban, well-off, white- and blue-collar workers who placed their trust and their future in the stock market in the 1990s. They eagerly embraced the high-risk, high-growth economy of deregulated markets and individual choice and now feel deceived by insiders who hid the truth and rigged the odds against them." "The investor class is taking its revenge by crushing certain stocks and pummeling companies." (*Business Week*, 25 Feb 2002, p. 150).

There is a second level to this argument. Some investors care not only about their own ethical treatment as investors, they also want the company to treat others right. They do not want to profit from or support unethical behavior toward employees, customers, the environment, or anything else. "Socially Responsible Investing" (SRI) has a growing, if still small, percentage of the overall market.³

If investors cannot trust a company to have honest, ethical accounting and financial management practices, and if they can't really count on a fair, just return on their investment, they will move their money elsewhere. Some investors will also move their money if they find out you are unethical toward your other stakeholders--even if you are straight with them as investors.

The argument about investor confidence applies to non-profit corporations as well. With the fraud conviction of their CEO William Aramony, United Way's donations went from \$26 million in 1992 down to \$15 million by 2002. The 2003 Pipevine scandal (mispending millions in donations they had helped collect for United Way) had a further negative impact. Excessive executive compensation, wasteful spending, and needlessly high overhead are good ways for schools, charitable groups, religious organizations and other nonprofits to discourage their donor bases. I don't give much to my beloved alma mater, UC Berkeley, because of the compensation practices of its leadership, squeezing the bottom while feathering nests at the top.

Reason #6: Partner Trust.

The old vertically-integrated business "silo" organization is pretty much dead. Instead, companies form partnerships with other companies, often outsourcing various functions to companies that are expert in those particular business areas, rather than trying to be expert on everything. Agility and speed matter in a fluid, shifting business landscape. It's about the capacity to form and maintain business partnerships.

³ See David Vogel, *The Market for Virtue* (Brookings Institution, 2005) for a careful report on the potential and limits of SRI funds.

Ford Motors and the Firestone Tire Company had a long and fruitful business partnership. But it all came unglued when Ford's Explorer SUVs experienced a series of deadly turnovers as their Firestone tires blew out. Ford blamed faulty tires manufactured at a Firestone plant allegedly manned by scab workers during an extended strike. Firestone's Japanese parent company, Bridgestone, clammed up and stonewalled. In the end it was clear that Ford's executives had chosen high SUV profit margins over their own engineers' recommended safety upgrades to stabilize the high-center-of-gravity vehicles. But Firestone also was guilty of stonewalling inquiries and evading responsibility for tire quality. Ethics broke down, then trust, then business.

Imagine a partnership where you understand each other, trust each other, shake hands and get to work. Imagine a second relationship where you've been burned before so you get your lawyers to draft voluminous protective agreements and disclosure documents, all of which have to be reviewed, negotiated, and signed by all sides. Who wins here? Agility, speed, flexibility---built on a foundation of trust and trustworthiness---win over stacks of legal protections for partners who don't trust each other. In the era of virtual corporations and extended enterprises, prospective partners will avoid unreliable, unethical companies and seek out reliable, ethical partners.

The great contemporary theorist of this phenomenon is Francis Fukuyama, author of *Trust: The Social Virtues & the Creation of Prosperity* (Free Press, 1995), an exhaustive historical study of economic and business history in several national and cultural contexts. Fukuyama discovered that business flourished and prosperity came where people had traditions of "spontaneous sociability"---the capacity to form relationships not based on blood and family ties but spontaneously, based on a shared purpose and values. He found that, in different ways, the USA, Germany, and Japan had been "high trust societies" and that this helped explain their economic success. Some other countries, by contrast, had wonderful extended family, kinship traditions---but these often precluded trusting (and working with) people outside the family or tribe. Businesses in low trust societies could only grow to a size manageable by a single family.

Getting the lawyers involved to cover all of possible exposures and vulnerabilities with detailed contractual agreements may work in some fashion. But these measures increase "transaction costs," in Fukuyama's terms. They slow down and undermine business.

Erich Schlosser's book *Fast Food Nation*, describes costly breakdowns in fast food business relationships when meat packers, truckers, executive leaders, and franchise workers are not on

the same page. By contrast, Getty Images, has become an extremely successful business (collecting, archiving, marketing photographic and art images for use by advertisers, illustrators, journalists, and others) on a basis of trust. There is simply no way for field photographers around the world and business workers in Seattle to check up on each other. It is all based on trust, and on shared values.

If we don't want to be slowed down (and financially drained) by armies of lawyers and stacks of fine-print, legal agreements--our business-to-business relationships will need to be based on trust. Trust is itself based on a reliable foundation of shared values and ethics.

Reason #7: Customer Loyalty.

Companies can lose their customers in two ways: (1) treat them badly (cheat, hurt, or disrespect them), or (2) let them know you treat others badly. It's the same basic argument that related to investors. Customers will definitely go elsewhere for better treatment; they may also go elsewhere just for a better feeling about the business. Customers are attracted by price, quality, convenience, and such factors. But they are also attracted by *how they are treated* (including fairness, honesty, ethics) and by *brand image and reputation* (ethics included).

Business is about customers. Everybody knows that it is less expensive to retain an old customer than to find a new one (by a factor of five, according to one report). Ethical practices and a good reputation will help attract new customers and retain existing ones.

Consider these examples of customer loss: Denny's Restaurant lost customers big time because of its mistreatment of some of its black customers. It wasn't just blacks who stopped going; it was many of their non-black sympathizers as well. The old Texaco oil company (now merged into Chevron) also lost customers--in its case because of its racist treatment of black employees. In my home town, the professional football Oakland Raiders rarely sold out their home football games after they returned to Oakland in 1995. Why? Partly, of course, it has to do with a poor, losing product and high priced tickets. But the deeper reason has to do with how their local fans have been treated. From the late 1960s when the Oakland Coliseum was built for them (and for the Oakland Athletics) until they suddenly moved to Los Angeles in 1984, the Raiders sold out every game they ever played in the coliseum. Their fans were fanatically-loyal, even when they didn't win championships. But after Al Davis jilted and abandoned this loyal fan base, and then unapologetically came back to town ten years later, those fans are staying home or supporting the cross-bay 49ers. Be fair to your customers.

Of course, many customers go into Wal-Mart or other stores and buy whatever they want, simply because it's cheap. These customers don't really care if workers were whipped and beaten as they made their items---or if harbor masters were bribed to move the merchandise---or if their own next door neighbors were thrown out of a job three weeks before retirement by a company that, pressured by Wal-Mart, offshored its manufacturing jobs, cut its costs, lowered its prices, and rewarded its top brass with obscene bonuses. They don't care about things like that (until it hits home to their family). We can't say that such customers are all evil people, either. Sometimes it is "care exhaustion"---just impossible to muster the passion to find out about these things and look for a more ethical (and probably more expensive) alternative. What is certain is that if you shaft your own customers themselves, they will go to another company if there is an alternative. That much is clear.

That's the fear side, the "stick" side. What about the love, "carrot" side of the argument? Many customers become fanatically loyal to companies that treat them---and their other stakeholders---well. The Odwalla juice company survived and even prospered after a contamination scare because their customers believed in their values and ethics. In'n'Out Burgers customers are also loyal, not just because of the taste (real dairy in their milk shakes!--not artificial, chemical concoctions---actual potatoes cut up into french fries!--not just processed, industrial potato meal shaped into fry-like sticks seered in boiling lard) and price---but because of the ways In'n'Out treats and compensates its employees from front-line workers to managers.

Starbucks coffee may not quite measure up to Peet's Coffee (from whom the original players learned the coffee business), or other local coffee houses we love, but it is the sort of place many of us feel good about patronizing because of the way they have provided health care benefits even to their half time employees and because of their efforts to sell fair trade coffee and be ecologically responsible. Costco may be too much of a big box warehouse experience for some people but it turns many others into loyal fans by its policies toward its customers (never marking merchandise up more than 14%) and toward its employees (insisting on paying them industry-leading wages). No surprise that Costco has both a talented, stable, happy workforce and a loyal customer base.

***Treat your customers with honesty and respect and see them again . . . and again.
Cheat, disrespect, or lie to them and watch them migrate to your competitors.
Exploit employees or trash the environment and watch some customers leave.
Run a company admired for its ethics and watch customer pride and loyalty reinforced.***

Reason#8: Employee Performance.

Surveys show that prospective employees (recent MBA grads, workers in transition) are attracted to companies with good reputations for ethics and fairness. Given a choice, employees will choose to work for companies with good reputations. Honest, hardworking people tend to prefer honest hard-working organizational cultures. “Best Places to Work” survey award winners often highlight the ethical dimensions of their employers. No doubt that compensation factors play a key role in recruiting good employees. But company ethics can also be an important recruiting help. As with the customers, this is first of all about whether employees themselves are treated fairly. But it is secondarily about how the company treats others (customers, business partners, government agencies, etc.). If the company is cheating and deceiving others, it loses respect and loyalty with its own people.

It’s not just about recruitment but *retention*. As with customers, it is much better and more cost-effective to retain your people than to have high turnover. New employee training costs are even more significant than new customer orientation costs. Ethics helps retain good workers.

Beyond recruitment and retention is employee *performance*. A company that exploits or mistreats---or even *appears* to exploit and mistreat---its workers, will likely get a second-rate performance out of them. If we think our boss or colleagues will rip off our best, most creative ideas, or tell lies about us . . . will we freely and openly share those ideas? I don’t think so. In our *knowledge* economy, our best assets are people and their knowledge and creativity. But knowledge sharing must be based on and facilitated by trust and trustworthiness. If we think that we’re here for the long haul and that we are a team that will share in the upside as well as the down, we will deliver a better performance.

Impacts of bad company ethics on employees:
Employee recruitment (more difficult). Employee retention (down; turnover increases)
Job satisfaction (down). Job performance levels (down)

Lincoln Electric Motors outside of Cleveland, is a longtime industry leader, whose employees routinely, consistently, out-produce, by wide margins, all their competitors. Why? Lincoln has an unusual culture of lifetime job guarantees after a probationary period is passed, an egalitarian management/labor culture (with lots of symbolic equality in office furnishings, the company cafeteria, etc.), and opportunity to work hard and be paid (bonuses) for what you have done. It is a culture that manages simultaneously to stimulate individual effort and team sacrifice. Treat workers well and watch them perform.

There are many other examples of ethical companies benefiting in employee recruitment and performance: office furniture manufacturer Herman Miller, Southwest Airlines, Men’s

Wearhouse, Costco, the SAS software firm. Stanford business professors Charles O'Reilly and Jeffrey Pfeffer's *Hidden Value: How Great Companies Achieve Extraordinary Results with Ordinary People* argues that "great people want to work at places where they can actually use their talents, where they are treated with dignity, trust, and respect, and where they are engaged by the values and culture of the organization."⁴

Four Internal Reasons to Build Ethically-Healthy Organizations

Investor confidence

Business partner trust

Customer loyalty

Employee recruitment, retention, & performance

Two Levels to the Business Case for Ethics

What we have then is an eight-part business case for running a company in an ethical manner. Generally speaking, it will cost you if you don't pay attention, and it will benefit your business if you do, to these eight factors. On the most obvious, common sense level these eight arguments have the following logical structure: treat nature in the right way, and nature will not bite back; treat your customers honestly and respectfully and they will be loyal; treat your investors ethically and honestly and they will give you more of their money; treat your employees right and they will perform better; or, conversely, mistreat any of these groups and they will take their business elsewhere.

On a second level, the business case is less clear. Here is what I mean. Will your investors care if you abuse your workers as long as you are honest and fair with the investors themselves? Some care, for sure. This is the "socially responsible investing" community. But SRI is a small fraction of the investment community. And will your customers care if you abuse your workers, so long as you are honest with the customers and they get a good deal? Not at all clear. Will your employees be affected if you disrespect and cheat your customers and business partners, so long as you treat them (the employees) generously and honestly? Some employees wouldn't care; some would. So the business case on this second level is not as compelling and certain as on the first level. The first level argument is a slam dunk, common sense case; the second level argument becomes increasingly compelling as a long term, "built-to-last" orientation is taken.

⁴ Harvard Business School Press, 2000. p. 3.

Four Deep Reasons to Build An Ethical Business

Finally, we come to four “deep” reasons to operate a business in an ethical manner. I say “deep” because for many people, these reasons are convincing enough to be ethical, even if the preceding eight-part “business case” does not seem to be playing out as we would wish.

Reason #9: Pride, Honor, & Conscience.

The first deep reason has to do with *pride*, *honor*, and a *clear conscience*. *Pride* means that we can look in the mirror---or at others---without shame. We can walk anywhere with our head held high. It is about *honor*, a sense of personal value that will not let me stoop to treat people in bad ways. Even if nobody else knows, I know what I did. I want to be proud of my work. When you achieve success (or survive difficulty) without cheating or compromising your ethics, you sleep well at night and take pride in what you have accomplished. As Peter Drucker has written, “The test is a simple one: What kind of person do I want to see when I shave myself in the morning?” It’s about *who we are* and what kind of a team or company we are. Can we feel great about not just *what* we accomplished but *how* we did it?

Pride, honor, and a clear conscience are at the foundation of a meaningful career, life, and legacy. It’s about who we are and what kind of a team or company we are. Can we feel great about not just what we accomplished but how we did it? Can we hold our head high, knowing we didn’t cut corners, step on others, and deceive people? It is about getting into alignment with our deepest, best self. Many of us would absolutely loathe ourselves if we were hypocritical, sniveling, deceptive, wormy, phony, abusive, cheaters.

The classic idea of “conscience” says that everyone has some kind of moral “antenna,” or “moral compass,” an innate as well as learned sense of right or wrong. Even if we don’t agree on all the details, we all have a conscience that tells us when something is wrong. The ninth reason to operate an ethical business is to keep this conscience clear, untroubled, and not pointing an accusing finger at us. Conscience, pride, and honor are about who we are as human beings. Doing the right, ethical thing is about getting into alignment with our deepest, best self.

The human capacity for rationalization and denial is truly awesome, of course, and some high profile business malefactors may go to their graves protesting their innocence and victimization by others. But how would you feel if you were caught in a lie? How did George O’Leary feel when he was abruptly fired as Notre Dame football coach---just days after getting the job---when it came out that he had not graduated from college as he had said? Just a little

embarrassing. How do the formerly high rolling corporate crooks feel now at their family gatherings or high school reunions?

There is a lot of cheating going on in the world. People justify it by saying that others are cheating and they are really just evening up the playing field. Certainly there are lots of pressures to cut corners and not enough pressures, and not enough praise, for doing the right thing and living with pride, honor, integrity, and a clear conscience. But what is truly most important often comes out at the end of our lives and careers--- e.g., in retirement speeches, and even more, funeral eulogies. Most of the time it is our kindness, generosity, integrity, toughness under challenge, that sort of thing, that gets lauded and praised. No one seems to want to mention or take pride in the scandalous behavior or duplicity of their lives and careers. It is a powerful argument, an inspiring call---when someone challenges us to live with pride and honor, with integrity, “no matter what.”

Reason #10: Business Excellence & Success.

The second “deep” reason to be ethical is about being in alignment with the essential character and purpose of our business organization. In some ways, this argument is a kind of summary of all the preceding ones---it is about the total business and its overall ethical health. It is a *broad*, comprehensive perspective. But it is also a *deep* reason. It is an argument about the “corporate DNA,” the “genetic” structure, the essential nature of the organization, about being in alignment with the mission and vision at the core of the whole enterprise.

This tenth reason is really the launching pad into a new way of thinking about business ethics that is proactive instead of reactive, holistic instead of fragmented, positive instead of negative, practical instead of theoretical, contextual instead of abstract. This kind of ethics is not “damage-control” but “mission-control.” Instead of letting crisis cases and troubling dilemmas set our business ethics agenda, instead of relying just on our personal values and consciences, we are building on our shared, fundamental, business purpose.

So the first question here is not, “what is right and wrong”---but “why do we exist?” “Where are we going?” What is our core *purpose* and *mission*? Our *vision*? Right and wrong cannot really be spelled out until we figure out where we are going. It is the mission that *leverages* and *motivates* our ethics. And the mission *specifies* our ethical guidelines and values. Without a positive, inspiring, worthwhile corporate mission, all of our other efforts at ethical business will be piecemeal and of uncertain impact. Fear of jail or shame or failure or customer loss may motivate some ethical behavior. Passion for a worthy, inspiring mission works like love: it will overcome a lot of obstacles to find its satisfaction.

Ethical guidelines spell out the *means* to the *end* (our purpose or mission), but they are also the “*realized presence*” of that end. That is, they are not separable but integral to the character of the End. This approach to business values and ethics, by the way, has ancient roots (in Aristotle and the Bible, for example)---and contemporary support from authors such as Jim Collins and Max DePree. The second half of this book develops this sort of mission-control approach.

What does it mean to say that “*ethics is about excellence*”? The terms “success” and “excellence” are ways of saying “we made it.” To succeed or excel is to fulfill our purpose or goal in a praiseworthy, admirable manner. I mentioned earlier that in classical Greek the word *arête* means *both* “ethical virtue” and “excellence.” In this way of thinking, ethics and excellence are inseparable, almost identical. “Doing the right thing” and “doing things right” are tightly intertwined. There just is no success and excellence that mean anything that can be separated from being good and doing right.

Paying attention to our ethics and values is fundamentally about paying attention to the characteristics and guidelines that will make us and keep us great. It’s all about excellence, about our corporate DNA, about making clear who we are as a company. Ethics is all about getting into alignment with who we are and where we are going as a company.

The company mentioned in the previous section, Harris & Associates, like Hewlett-Packard in the old days, is a great example of this twelfth motivation for paying attention to ethics. Carl Harris founded his company with two other people back in 1973. Thirty years later Harris & Associates was approaching five hundred employees. Rather than everyone operating out of one headquarters location, there were now some twelve satellite branch offices around the western United States. Carl Harris and his generation of the founding leadership were at or nearing retirement age.

When Harris & Associates was small and centered in one place, when the leadership was looking forward to decades of hands-on presence, its values and ethics could be embodied in its leaders and articulated person-to-person. Thirty years later the growing numbers, the geographical dispersion, and the generational leadership transition all led Harris & Associates to take action to articulate and implement an aggressive mission, values, and ethics program. For them it was not about damage control but about taking steps to guard and perpetuate into the next generation, the things that have made their company great. And Harris is a great company---growing and hiring new people all the time. If someone comes on board, perhaps in

a remote branch office, bringing the values and style of their previous employer (like Haliburton or Bechtel), Harris & Associates wants its own culture, values, and ethics to be clearly identified and distinctively present.

The ninth reason (pride, honor, conscience) was about acting in harmony and alignment with our best selves. The tenth reason is about ethics and action that are in harmony and alignment with what our company represents and aspires to, our best corporate self, we could say.

Reason #11: Corporate Citizenship.

A third “deep” reason for being ethical that doesn’t really depend on a pragmatic, business case has to do with “corporate citizenship.” Much has been written, pro and con, about the American legal definition of corporations as “persons.” The corporate citizenship view actually brings the best out of the concept by calling for a fuller understanding of the obligations as well as privileges that go with such citizenship. Citizens have responsibilities as well as privileges *by definition*. It just goes with the territory. Non-citizens don’t share the same rights and responsibilities. Citizens pay taxes, obey the laws, defend the commonwealth, and do their part for the common good.

Corporate citizenship sees the ethical responsibility of business based not on business benefits, personal values, or grand philosophical or theological theories but on the necessary relationships among citizen-participants in civil society. Corporations are seen as complex communities and institutions existing in relationships within civil societies. Ethics for corporate “persons” is about being aligned with the requirements of a healthy, well-functioning civil society.

Some companies understand and willingly embrace this responsibility as citizens. David Packard writes “Among the Hewlett-Packard objectives Bill Hewlett and I set down was one recognizing the company’s responsibility to be a good corporate citizen. . . This means being sensitive to the needs and interests of the community; it means applying the highest standards of honesty and integrity to all our relationships with individuals and groups; it means enhancing and protecting the physical environment and building attractive plants and offices of which the community can be proud; it means contributing talent, energy, time, and financial support to community projects.”⁵

⁵David Packard, *The HP Way: How Bill Hewlett and I Built Our Company* (HarperCollins, 1995) pp. 165-66.

More recently, Harris & Associates, a highly-regarded construction and project management firm based in Concord, California, articulated its long-standing mission to explicitly include the following: “*We protect and improve our community and environment through responsible stewardship of our shared resources*”. . . and its vision to include “*We want to be valued as model corporate citizens by all the communities in which we operate, with a reputation for generosity, responsiveness, and wise stewardship.*”

Of course, this kind of corporate stance can pay off in greater public acceptance, higher brand reputation, increased customer loyalty, and employee pride (this was Reason #3 above). But the fundamental argument is that, *even if there is no other direct business pay-off*, operating ethically and responsibly is part and parcel of being a citizen in this society. It just goes with the territory. It is about being in harmony and alignment with our host society and community.

If corporations are to be granted the privileges of legally defined “persons,” it is appropriate to expect them to accept the responsibilities that normally attach to such citizenship. It is a two-way street. Ethical responsibility goes with the territory. It is about being in alignment with our civil society in its most constructive sense.

Reason #12. “Just Because it’s Right.”

Shouldn’t we do the right thing “just because it’s right,” i.e., even if there is no benefit to us or our business? The short answer is “Of course!” We shouldn’t need a business or personal payoff to get us to do the right thing. In fact, we shouldn’t even need the reward of feeling pride or honor or a clear conscience. We should do the right thing “just because it’s right.” It certainly simplifies things if this answer is convincing. For one thing, it could be a real distraction to stop and calculate probable benefits each time before deciding whether to do the right thing. Such a calculating approach to the moral life would soon be very tedious personally and impossible for organizations in our high speed society.

Another concern behind this “reason” is that motivation by the benefits of being ethical can appear hypocritical. The famous Machiavelli, quoted earlier about the virtues of ruling by fear, also said that rulers only needed to “appear to be virtuous”---not actually be virtuous. But the people are not as naïve as Machiavelli thought. Wayne Alderson, leader of the “Value of the Person” business seminars, often said that if a leader treats employees with love, dignity, and respect, productivity will virtually always go up; but, he insisted, if a leader treats employees with love, dignity, and respect *so that* they will be more productive, they will see right through

him or her and it will fail.⁶ Dennis Bakke's recent account of his CEO experience at AES, *Joy at Work*, makes the same kind of argument: do the right thing because it's right. That's enough.⁷

A famous tradition in European philosophy is one source of this thinking about ethics. Immanuel Kant (1724-1804) argued that ethical imperatives are never "hypothetical" but always "categorical"---independent of all conditions and results. Kant thought that this was the only rational way to live and think. Another source of "just because it's right" thinking is religion. "Divine Command" ethics say that something is right just because God decrees it to be so. (Though the Bible itself, by the way, never urges ethical behavior with a "just because" or a divine "pulling of rank." For example, for those who follow the Ten Commandments, "it will go well with you and you will live long in the land" (e.g., Deut. 5:33)).

The "just because it's right" argument is really about something like "getting into alignment with God and the universe"---seeking harmony with the moral universe.

In any case, there is an important problem that this argument is trying to address. If one is only ethical when one can see a concrete business benefit, some bad things are going to be done. Calculation, hypocrisy, and manipulation will poison any atmosphere, any organization. Nobody can make the case that every ethical act will result in a personal (or business) benefit in the short term. Another way of explaining this argument is to say that it is really more about "*when*" to do the right thing than about "*why*" to do it. In other words, do the right thing even if/when the benefit of being ethical is unclear or deferred. Sometimes being ethical will cost us one way or another; sometimes it will pay-off in *many* different ways; but sometimes we just can't tell. The best we can say is that being ethical will *often* bring benefits to you and your organization, especially in a long-term view. So the best "working" rule of thumb is always "do it just because it's right."

A good analogy here is physical health. If you will stop your excesses and control your bad habits, if you will exercise regularly and eat wisely, you will likely live longer and feel better. But this is not guaranteed; you might get hit by a truck or die of a heart attack anyway. Nevertheless, good habits will increase your odds of a good and long life. So with business: good ethics increases your odds of success and excellence. No guarantees---but better odds.

⁶ Wayne T. Alderson & Nancy Alderson McDonnell, *Theory R Management* (Nelson, 1994), p. 47.

⁷ Dennis W. Bakke, *Joy at Work* (Seattle: PVG, 2005), pp. 27, 31.

But even that bit of long-term pragmatic thinking troubles some of the devotees of this twelfth reason. Maybe the best way to put it is to say that we ought to do the right thing in business because it keeps us in harmony and alignment with the moral universe and its Creator.

Four Deep Reasons to Build Ethically-Healthy Organizations

Honor, pride, & conscience: alignment with my best self

Success & excellence: alignment with our corporate mission and vision

Corporate citizenship: alignment with our public responsibility and privilege

Just because it's right: alignment with a moral universe and creator

Getting Real about Ethical Motivation in Our Organizations

There are four basic processes in “making ethics real” in an organization. We will return to this four part process again and again in coming chapters. The first process is *identification*. We must identify or “figure out” and describe the best, strongest case for being ethical in our company. This chapter has discussed twelve good reasons. But every organization needs to engage in a serious conversation about *why* it should be ethical. You can’t just piggy-back on someone else’s convictions (though we can and must learn from others). Get a committee together and hash out the strongest case possible.

The second process is *education*. This process is about making sure everyone in our organization (perhaps also our customers and business partners) *knows* our reasons for being ethical. It does no good to have a great argument if the people don’t know it. How do we educate and train our people? It starts with leaders from the top on down communicating our “good reasons” to be ethical, defining and explaining them, and constantly telling stories (that instill fear and love as appropriate) in support of each of our good reasons. The company newsletter can circulate these communications. A letter from the CEO at the front of the code of ethics can give the reasons. Speeches, presentations, and staff meeting agendas can be teaching opportunities and motivational opportunities. My caution is to be sure to give at least as many positive examples as negative ones. Carrots, not just sticks.

The third process is *implementation*: living out what we have identified and taught, practicing what we preach. In the case of ethical motivation it is a relatively straightforward matter of *arguing* for good ethics and then *acting* ethically. Giving reasons, persuading others . . . that is how we implement the concerns for motivation. But we can’t just give a strong argument and then ignore it or violate it; we must also act on our arguments.

The fourth process is *evaluation*. We must be aggressive in finding out if our people *know* the argument and actually *believe* it. I will say more about the general process of evaluation later but one component I strongly recommend is an annual or perhaps biennial ethics audit of all employees (and directors, executive management, et al). We must find out whether and how the people are motivated to be ethical---and what they think of the company and its leadership. Below, I have given a *generic* version of an ethical motivational audit; I believe each organization needs to *customize* its own audit. In addition to an audit like the one below, there is no substitute for focus groups, staff discussions, and the sort of insight one gets from “management by wandering around.”

Gill’s Company Ethics Motivation Audit					
Does our company take ethics & values seriously?	Strongly Disagree		Strongly Agree		
	1	2	3	4	5
1. Our company leaders communicate frequently about the importance of ethics and social responsibility. They really care and see these things as a priority.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
2. Avoiding trouble with <u>the law</u> is an important reason why ethics matters at our company.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
3. Earning and maintaining a good public <u>reputation</u> for ethics and social responsibility really matters at our company.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
4. Being good stewards and care-takers of the <u>environment</u> is important at our company.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
5. Maintaining <u>strong financial health</u> and committed investors/owners is an important reason why ethics matters to our company.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
6. Maintaining good working relationships with <u>business partners</u> is an important reason why ethics matters at our company.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
7. Customer <u>acquisition and loyalty</u> depends in an important way on our treating clients <u>ethically</u> ---and on our overall reputation for ethics.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
8. Recruiting and retaining good, enthusiastic <u>employees</u> depends, to an important extent, on our <u>maintaining an ethical organization</u> .	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
9. Our people take <u>pride</u> in the high ethics they practice, so that any success they have was not achieved by cutting ethical corners.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
10. Ethics and values at our company are not just an external standard but are part of our core identity. Living by our company values and ethics is essential to <u>fulfilling our corporate mission</u> .	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
11. Our company stresses the importance of being a responsible, ethical corporate citizen in the communities in which we operate.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
12. Our company would do the ethically right thing even if it cost something, even if didn’t have a financial benefit, even if its competitors didn’t follow suit. It would do it just because it is <u>right</u> .	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
<u>Make a list of the top four reasons you think our company should operate in an ethical manner, from the #1 reason down to #4:</u> 1. _____ 2. _____ 3. _____ 4. _____					
<u>Comments on our company’s motivation and commitment to being ethical:</u>					

Afterthought: What Motivates Unethical Business?

It is worth asking the opposite motivational question: why are people and organizations unethical? Are we up against a separate “twelve good reasons to be unethical”? What motivates bad things in business?

If we focus on the vices of attitude that lead to unethical action, greed would certainly be one of the top answers in any survey. Inordinate, obsessive desire for more and more and more---this can blind people to all other considerations and cause them to lie, cheat, and steal. Pride may be a cause in some cases; people are so afraid of appearing (or being) unsuccessful that they cheat. Arrogance can play a role---some individuals are so drunk with power they believe they are above the law and conventional morality.

This could lead into a focus on the character of the individual players. One common explanation is to blame the “bad apples” in our midst---bad individuals who do unethical things. The message seems to be that a few “bad apples can spoil the barrel.” Some people are so corrupted by greed and pride that they will stop at nothing to get what they want. The bad apples justify themselves by thinking they are above the law, unique in their situation. Or they argue that others in their position would do the same (unethical) thing. Sometimes they argue that their private moral standards are one thing but the business world is a dog-eat-dog, kill-or-be-killed environment with no place for a soft ethics of altruistic values.

The implication of the “bad apple” argument is that companies need to be careful to hire only “good” people. HR recruiting processes must look for character, values, and ethics, not just for technical skills, experience, or academic pedigree. That is unquestionably important but things are rarely so simple. None of us completely lives up to our ideals. And people of high ideals sometimes fail or fall under the extreme pressure of business situations. The character of the individual (apple) is very important, but it doesn’t fully explain unethical business.

Another explanation focuses our attention on the environment, either the organization or the broader economy and society. Some point the finger at defective systems and policies in companies. This is the “bad barrel” argument. The barrel causes (or enables) the rotting of the individual apples. For example: the compensation system might reward quantitative achievement so heavily that corners are cut to “make the numbers.” Perhaps the system encourages cronyism rather than accountability on boards of directors. Perhaps the company does nothing to promote or implement its formal values statements so that cynicism reigns in daily practice. Perhaps there are just too many “opportunities” left open for individuals to be corrupted and make bad, unethical decisions.

The systems explanation certainly is important and urges business leaders to be clear and articulate about values and then implement those values in organizational systems, policies, and daily business activities. The “bad barrel” argument is no excuse letting the guilty off the hook, but it is an explanation of why people and organizations sometimes yield to temptation. The implication of this argument is that we need to build organizations that reduce the pressures and opportunities for unethical behavior and that, conversely, reward and encourage ethical behavior.

We can go even broader and blame the larger global marketplace, economy, and society. Today’s intense economic and cultural pressures, the competitive environment in which companies operate, causes ethical lapses. This is just a larger version of the preceding systems argument. Now it is not the individual company but something larger: “the market made me do it!” We “had to do it to stay competitive,” to survive (employment practices, pricing, pollution, etc.) in the global economy. What can possibly be done about this third factor? Changing an individual is very tough; changing a company is so much tougher; changing the national or world economy seems impossible.

The legislative and regulatory environment might be improved, of course. Perhaps national governments and international bodies (World Bank, United Nations, etc.) can have an ethical influence on business. Perhaps the media, religious organizations, and other popular movements can have an impact. Perhaps businesses can work together to improve things. Some companies may choose to back off from the competitive, global environment and operate on a smaller scale in some area. The point is that it will not be easy to modify the intense, competitive forces of global capitalism. We will have to look elsewhere for solutions to the epidemic of unethical business behavior.

For reflection or discussion:

1. As you think about your own business experiences, what fears (worries, anxieties, things to avoid) and what loves (positive passions and desires) have influenced you?
2. Which of the twelve reasons do you find most convincing for your career and your business arena? Which will be easiest to use in motivating your company?
3. Which of the twelve reasons do you find unconvincing or unhelpful in motivating your company to be ethical? Why? Can these weaker arguments be strengthened at all?
4. On a more general level, are there other reasons or arguments to be ethical in business? What are they?

Exercises:

1. Go out on the web and visit a few web sites of both competitors and companies in other industries that you admire. Some of them post their mission/vision, values, and ethical guidelines with an introductory statement (usually signed by the President or CEO) saying

why ethics is important. What are their reasons? Could you write a more compelling statement about the “why”?

2. Do some brief interviews of a superior, a peer, and a subordinate in your company. Ask each of them to define “ethical business” and say why it is (or should be) important to our company

Resources for Further Study

One place to go for the “why care about ethics?” discussion is Milton Friedman’s famous little essay “The Social Responsibility of Business is to Increase Its Profits” (originally published 13 September 1970, *New York Times Magazine*; widely available on the web). Friedman argues for a “minimalist” perspective, that executives serve only the profit maximizing interests of the business owners, limited only by the “rules of the game,” i.e., free and open competition and avoidance of deception and fraud. Friedman is not really attacking business ethics but, for him, obligations to other stakeholders (beyond investor/owners) are distinctly secondary. It is a great thought and discussion piece.

Here are some good books arguing (with lots of examples) that good ethics and social responsibility are (or at least can be) good for business: David Batstone, *Saving the Corporate Soul & (who knows?) maybe your own: Eight Principles for Creating and Preserving Integrity and Profitability without selling out* (Jossey-Bass, 2003); Steve Hilton & Giles Gibbons, *Good Business: Your World Needs You* (Texere, 2002); Philip Kotler & Nancy Lee, *Corporate Social Responsibility: Doing the Most Good for Your Company and Your Cause* (John Wiley & Sons, 2005); John Dalla Costa, *The Ethical Imperative: Why Moral Leadership is Good Business* (Addison-Wesley, 1998); John Elkington, *Cannibals With Forks: The Triple Bottom Line of 21st Century Business* (New Society Publishers, 1998); and Jeffrey Hollender & Stephen Fenichell, *What Matters Most: How A Small Group of Pioneers is Teaching Social Responsibility to Big Business, and Why Big Business is Listening* (Basic Books, 2004).

Charles A. O’Reilly & Jeffrey Pfeffer’s *Hidden Value: How Great Companies Achieve Extraordinary Results with Ordinary People* (Harvard Business School Press, 2000) and Francis Fukuyama, *Trust: The Social Virtues and the Creation of Prosperity* (Free Press, 1995) are fascinating, well-documented studies of how valuing people and building trust (respectively) bring business value. David Vogel, *The Market for Virtue: The Potential and Limits of Corporate Social Responsibility* (Brookings Institution Press, 2005) is a thorough study of what we can know today about the contribution of CSR and ethics to financially successful companies. The verdict is mixed but Vogel is mainly discussing what I called the “second level”---i.e., how a company’s treatment of their workers affects investors and stock prices. (The first level has to do with how workers respond to their own treatment).

There are many books out chronicling the successes of ethical leaders and companies (and the books listed above give many such examples). Another way to come at things is to read about the disintegration of Enron and others companies that bent and broke the law and ethics. One of the clearest accounts is given in Barbara Ley Toffler with Jennifer Reingold, *Final Accounting: Ambition, Greed, and the Fall of Arthur Andersen* (Broadway Books, 2003).