

# perspective

## Bad people do not have a monopoly on bad deeds: taking an organizational approach to ethics

By Lynn Sharp Paine

ENRON'S MELTDOWN in December 2001 and the subsequent disclosure of legal and ethical problems at a number of other U.S. companies have once again focused public attention on what we can do to improve the ethical performance of U.S. businesses. To be sure, the bankruptcy of this energy-trading giant cannot be attributed solely to ethical breaches. Investors had begun to grow wary of Enron's economic prospects months before they learned about the company's misleading accounting practices and its executives' flagrant self-dealing.


Revelations of ethical breakdowns, however, proved the *coup de grace*. As evidence of improper accounting, questionable financial engineering, and executive conflicts of interest came to light, disappointment turned to indignation. Regulators and lawmakers geared up for investigations, while angry investors, employees, and other injured parties lined up for their day in court. After the ailing firm failed in a last-ditch effort to find an acquirer, a further credit downgrade triggered repayment obligations that Enron could not meet. The company, which at its peak boasted a market capitalization of \$70 billion and a seventh-place rank among the *Fortune 500*, filed for protection from its creditors. Less than a year later, in October 2002, Enron Chief Financial Officer Andrew Fastow was led in handcuffs to a Houston courtroom to face charges that could send him to jail for 40 years.

In the wake of these events, much attention has focused on punishing the "bad apples" who perpetrated the misdeeds at Enron and elsewhere. Yet, to concentrate only on individual wrongdoers may waste a chance to improve the performance of business firms. Such a focus rests on a too-simple view of human behavior and neglects the powerful ways that organizations influence conduct. It assumes that bad deeds are the work of bad people and that decent, well-intentioned people will instinctively and automatically do what's right, whatever the context and circumstances. But without a serious attempt at dealing with ethics at the organizational level, even decent people who are doing their level best can find themselves acting at odds with both their own values and the expectations of the broader society.

### TAKING CUES FROM OTHERS

Most of us are far more susceptible than we think to the influences and opinions of those around us, and more willing than we may realize to leave difficult moral judgments to others. In





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experiments undertaken by Princeton University social psychologist John Darley, research subjects were working on an assigned task in a computer room when they heard cries from next door. Some subjects were alone, while others were working alongside a small group of strangers who were part of the study and had been instructed not to respond. Darley found that 80 percent of those working alone got up from their work to check on the individual calling for help. By contrast, only 20 percent of those working next to the group did so. When interviewed after the experiment, those who had not responded explained that they had not acted because no one around them was acting.

This shows what we know intuitively—that even good people are fallible, and the risk of moral error multiplies exponentially in an environment of moral indifference. Lacking a publicly shared set of values, individuals can easily become morally isolated. Some may even suppress their ethical concerns out of misguided deference to others. As one employee confided to me, “You lose your bearings and your ability to distinguish right from wrong.”

Yet, many companies operate on the premise that organizations are essentially amoral and that to prevent wrongdoing, all that is necessary is to hire ethical individuals. That this premise is mistaken was made evident when Wharton School Professor Scott Armstrong and colleagues asked groups of executives and business students from eight countries to play the role of an imaginary pharmaceutical company’s board of directors. In this scenario, one of the company’s most profitable drugs was causing an estimated 14 to 22 “unnecessary” deaths a year and would likely be banned by regulators in the company’s home country. A rival was offering an alternative medication with the same benefits and at the same price, but without the side effects. What should the board do?

More than 80 percent of the “boards” decided to continue marketing the product both domestically and overseas, and to take legal, political, and other actions to prevent authorities from banning it. Of the remaining 20 percent, some said they would continue marketing the drug until a ban actually took effect, while others said they would cut back on production or market only to doctors who requested the medication. No group decided to recall the product, and there were no significant differences by age or nationality.

Yet, when Armstrong asked a separate sample of business students, managers, and faculty members for their personal assessment, 97 percent said the decision to continue shipping was “socially irresponsible.” Thus, 80 percent of the participants acting in a corporate capacity made a decision that 97 percent of those acting in a personal capacity judged to be morally unacceptable. This suggests how powerfully—and subtly—corporate roles can influence behavior.

#### **ORGANIZATION BY DESIGN**

Many executives who are quick to take credit for creating cultures that motivate sales or productivity are equally quick to deny responsibility for cultures that encourage misconduct.

But companies do not spontaneously arrange themselves in a way that makes it easy or even feasible to discourage illegal actions and foster ethical decision making. They must be organized, managed, and led in a way that makes this possible.

A company's ability to conform its activities to a set of ethical principles, to make sound judgments when values conflict, or to engage in self-scrutiny and self-correction all presuppose a suitably designed and effectively functioning infrastructure that allows and encourages the company to operate in an ethically responsible way. By infrastructure, I refer to the whole array of structures, systems, and processes that guide a company's functioning both day to day and long term.

Consider an auto mechanic whose job includes inspecting cars, recommending repairs, and performing repair work. Man-

the prospect of Congressional action, had already begun a coordinated effort to oppose Marketplace. One email addressed to the CEO of Lotus put it bluntly: "If you market this product, it is my sincere hope that you are sued by every person for whom your data is false, with the eventual hope that your company goes bankrupt." In the end, plans to ship the product were canceled; later that year, Equifax discontinued sales of direct-marketing lists generated from its credit data.

The product design team's failure to recognize the potential ethical issues with Marketplace illustrates the dangers of relying solely on instinct for ethical guidance. Few people, even experienced managers of impeccable character, have such well-honed instincts that they can single-handedly grasp the moral questions raised by a new technology or a complex financing

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agement instructs its mechanics to sell a certain number of repair jobs during every shift. If mechanics fail to meet these quotas, they can be transferred or have their work hours cut back. In addition, for every hour of repair work beyond a specified minimum, the mechanics earn incentive pay. One mechanic suspects that coworkers are recommending and performing unnecessary repairs. He knows for a fact that some have told customers that their cars' struts are "blown out and leaking" when they aren't.

When I've asked business executives to consider this situation from an ethical point of view, virtually all of them say that it would be unacceptable for the mechanic to do what the others are doing. However, when asked to predict what the mechanic is likely to do, most predict that he will lie. Most cite the organization's quota and incentive system—not the mechanic's character.

### **SORTING THE ISSUES TAKES PRACTICE**

Many managers also could benefit from training in identifying and evaluating ethical issues when they arise and practice in thinking through how to handle them. Otherwise, even problems that seem obvious in retrospect can go unrecognized or mishandled until after the damage is done.

One such example is the firestorm that resulted when software maker Lotus Development Corporation and credit reporting agency Equifax, Inc., announced their jointly developed software product Lotus Marketplace. Intended to help small businesses identify prospective customers, Marketplace contained information on 80 million U.S. households gleaned from public sources and from Equifax's own credit reports. The companies' new product announcement unleashed a barrage of unexpected criticism about possible violations of individuals' privacy as well as the database's potential misuse. Taken by surprise, the development team proposed several changes, but the changes were too little, too late. Privacy advocates, buoyed by

scheme. And neither ethics codes nor values statements are much help when it comes to difficult or novel matters like these. What's needed is a defined method for integrating ethical analysis and assessment into the organization's decision processes.

### **A ROLE FOR LEADERSHIP**

Calls for greater corporate responsibility have far-reaching implications not just for corporate governance, but for virtually every aspect of management—from the frameworks used to analyze and make decisions to the measurement and reporting of performance, and even the choice of strategy and structure.

This is not to say that an ethical business climate can be cultivated solely through the efforts of individual organizations. Political and economic choice, free-flowing information, and an educated public are also essential. Moreover, an effective legal and regulatory system is necessary to provide the incentives that promote and enforce basic ethical norms. At least in the United States, the legal system has played a crucial role in correcting social indifference, misconduct, and overreaching by business. Antitrust laws, food and safety laws, equal protection laws, and workplace safety standards are just a few examples.

This is also not to deny the existence of good and bad people or the importance of punishing wrongdoers. However, it is a mistake to believe that bad people have a monopoly on bad deeds. In the absence of an active effort to build and maintain a positive set of organizational values, the values of individuals are left to the corrosive forces of indifference. \*

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