

## UNSCRAMBLING ETHICS FOR MANAGERS\*



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When I mention the subject of my talk here I get a response I am very used to after ten years in the field. "You're talking on business ethics--there's nothing to talk about." or "You're a philosopher. They're supposed to avoid contradictions." Finally the cab-driver to the airport-- "Good Luck!"

But then I recall pronouncements by CEO's. We have a collection of statements by CEO's in our files at CSEP. Here's one from Taylor Thompson, President of FTS Systems, Inc., an international manufacturer of research testing equipment. "We distribute a set of company principles to all managers. These guidelines represent the firm's philosophy and should serve as the basis for all decisions. Among the many areas covered are the importance of ethical decision making and the value the firm places on its reputation as an ethical business. In any business, customers and employees alike can quickly detect when top management condones unethical business practices."

I have another statement, this one from L. Morgan Hall, President of TFE Inc., a national employee-leasing firm. "There is no activity in which a president plays a more important role than promoting business ethics. The top executive must set the ethical tone for the entire company to

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\* Talk delivered to Frontenac Company Seminar, Carefree Colorado, April 26, 1988

ensure that employees give such practices high priority. Although we do not have an official code of ethical conduct, our philosophy is outlined in the employee handbook. We want all employees to know that business decisions are based on what is right, not on what is most expedient."

Listen to Robert Ludlow, President of Bedford Industries, a manufacturer of twist ties and single-service microwavable containers. "A primary responsibility of the CEO is to create and promote a corporate culture that is committed to ethical business practices. It is impossible to have an ethical company...when this goal is not championed by the top executive...Written statements are meaningless unless this commitment is demonstrated in the daily management style of top...management. ...For example, we are committed to making this a comfortable and safe place to work."

Finally, I'll give you comments from Dr. Robert Allington, President of Isco Inc., a manufacturer of scientific instruments and water pollution monitoring equipment. "Because managers often have the greatest impact on day to day operations, I discuss with my management team the importance of analyzing the ethical aspects of all business decisions. In doing so, I make sure managers realize that more than bottom-line results will be evaluated. ...Codes must be more than self-serving 'shopping lists' designed to benefit the company. ...Codes should be a vital part of everyday business activities."

These excellent statements are only a small sample of many such avowals. How, then, do we make sense of the widespread belief that business is carried on without regard for what it's right or wrong to do. Perhaps, as many have suggested, we should look at the failure to connect the excellent sentiments so well expressed by the CEO's with specific, concrete situations. OK--the example has to be set at the top. Agreed--(most of the time) good ethics is good business, but how do these fine pronouncements relate to actual decision making? How do they help the beleaguered manager?

At this point I find something curious--extreme reticence about really going through the ethical aspects of a decision out loud on the scene in the organization, or even in the business school class which is considering a case. The other day, I held a meeting with a half dozen members of IIT's business school faculty who had each separately approached our Center about including business ethics in their teaching. At the meeting, all of them emphasized that there are ethical aspects to almost all the cases they consider. They think ethical issues are important, and yet they admit they are "squeamish" about tackling the issues in class.

Why this timidity? I thought of a number of possible reasons. 1) There is the fear of sounding moralistic and losing credibility. 2) There is the belief that it is trying to do the impossible--teach what can't be taught--at this

stage. 3) There is a fear of getting caught in a bog of conflicting subjective opinions about what's the right thing to do. 4) There may still be a belief that the market sorts things out and there is therefore nothing to teach.

In the digest of our meeting that I sent around to those business school faculty who attended, I suggested that we probe the roots of the squeamishness. One faculty member, who has considerable business experience, responded to my note as follows. "Not squeamishness--just the stigma of unworkability or impracticality in the 'real world.' Case teaching generally is used to bring out and discuss a number of complex and overlapping issues. Generally, the instructor does not suggest a 'right' and a 'wrong' way. It seems that in teaching ethics there is more of an obligation to identify right and wrong behavior. What is the best way to do this without preachifying and sounding like an impractical dolt (especially with experienced students) is a major dilemma to me." That is the challenge. It is a tough one--no one likes to be 'should upon.' Worse than that, Thomas Dunfee, Professor of Social Responsibility, legal studies, and marketing at the Wharton School of the University of Pennsylvania reports that he occasionally meets students--and some professors--who are "hostile to the idea of ethics, almost angry. You do run into people that are...irrationally hostile to it. Not large numbers...but you don't run into that when you are talking about contract law." In the face of this challenge, I'd like to offer some comments and raise

some questions. They come from my experience in teaching and that of others, talking to business people in a lot of situations, and reflecting on my observations. I hope they bring out the intrinsic interest and practical value of thinking out loud about ethical concerns in business circumstances.

I am going to respond to three main questions that come up all the time.

1. Is it possible to teach ethics to people who are no longer children
2. How do you spot ethical problems?
3. How can you attack an ethical problem? (In the university we might say 'approach'.)

First--the question about whether it's possible in a company or in the classroom to teach business ethics. If we're talking about what we presumably learn at our parents' knees, in elementary school, or Sunday School, it's probably not possible. We learn many things in kindergarten. Someone recently made a list: Play fair; Don't hit people; Put things away where you found them; Clean up your own mess; Don't take things that aren't yours; Say you're sorry when you hurt someone; Wash your hands before you eat; Flush; Warm cookies and cold milk are good for you; Take a nap every afternoon; When you go out into the world, watch for traffic; Hold hands; and Stick together.

Can we, on the job or in the classroom, change people who do not already want to do the right thing? Probably not.

We have to assume that most people want to do the right thing. What we can do is introduce people to specific problems that come up in their line of work and give them a chance to think through in advance how they would wish to handle the problems. This brings me to a point all of us in applied ethics agree on--we have to look at cases.

Let me give you an example we use in class. You and Eric Gadette formed an engineering firm a few years after you both graduated from IIT. The first fifteen years were pretty tough, but the last five have been wonderful. You now have 30 engineers working under you and more work than you can handle. Yet, you are not altogether happy with things. During those first years, especially the first ten, Gadette brought in most of the business. In those days, you were glad to have him as a partner. Now you are not so sure, Gadette's contacts are retiring or dying at a surprising rate. He has not been able to replace them. Gadette is an ordinary engineer, not a hotshot. It is now your reputation that brings in most of the partnership's business. You therefore ask yourself why you should maintain the partnership. If you dissolved, most of the staff would go with you, as would most of the clients. So instead of splitting profits 50-50 as you do now, you could have the equivalent of 90%. You have already suggested to Gadette changing the partnership agreement to allow such a lop-sided split. His response irritated you. "How can you ask that of me after all those years I carried you?" "Why not" you

replied. "The partnership agreement does not require us to stay together one minute if one of us wants out. No doubt you carried me all those years because you thought it was in your interest. I would do the same if I thought it in my interest. But I don't. Business is Business. What more is there to say?" In taking up such a case, can't we do what LaRue Hosmer of the University of Michigan suggests, that is, prepare "people to analyze questions so as to bring to bear whatever moral standards they have"? As the back and forth continues about what is owed to a partner of 15 years, what is a justifiable allocation of the profits, what are reasonable expectations of each partner, the ethical considerations which are relevant at least become explicit and the moral sense can be sharpened. One's immediate gut reaction may not be one's final conclusion.

Now to the second question--How do you spot ethical problems? Some ethical problems hit you in the face--they come at you clearly and unmistakably. It's not all that easy to think of examples because so many sneak upon you. They start quietly and ripen over a considerable period. A person may not discover the problem until she's too deeply enmeshed to do much about it. There are no sirens or flags; the problems do not come labelled. They are easier to spot when others have them. Certain common patterns in organizations and occupations lie behind failures to detect and acknowledge moral problems at an early stage when they may be more manageable. One example is the phenomenon of "pluralistic

ignorance." In a group setting, the very inaction of the others allows a person to regard the situation as less serious than she would if alone. This was first described in the Kitty Genovese case. Perhaps it lies behind some cases which have shocked us--the DC-10 and the Ford Pinto. Most occupations develop the "insiders syndrome"--they can generate rationales for ethically dubious conduct and protect themselves from outside criticism on the grounds that outsiders don't understand the necessities and values that insiders take for granted.

Lawrence Lavengood, of the Kellogg School of Management at Northwestern University, offers suggestions about where to be on the lookout for ethical problems. One place is where the industry is changing. Using uncertainty about what the rules are, a person will push to the limit of what is ethically allowed and even go beyond. Some would give as an example what we have recently seen in investment banking. Even in stable industries, new practices can take you close to the edge--the gathering of intelligence about competitors for example. The most important spots to be alert for are those points where competitive and economic pressures are greatest. There decision makers may be tempted to pass off as economic necessity choices which produce perhaps avoidable damage to particular people. This can happen, for example in letting go long-term employees at a time of restructuring.

Let's turn to the third question. How do you attack ethical problems. Here arises a second worry which I



mentioned at the outset: concern about becoming caught up in a tangle of conflicting subjective opinions if you begin to talk about what is the right thing to do in a particular situation? It takes experience and confidence to raise ethical questions and face up to knotty situations. One reason philosophers stepped in is that they had familiarity with the moves in moral reasoning and moral argument. They, of course, had to learn about the occupations where they hoped to make a contribution. Their insight was that people need to become accustomed to using moral language, to get comfortable with moral discourse, the ventilation of moral opinions, and the reasons for them. Over the last few years that has begun to happen. I was struck yesterday when Mike commented on certain practices in college sports. He spoke of the hiring practices for college teams and made a moral judgment to which he could sense our almost immediate agreement--that they are wrong.

There is remarkable consensus about basic moral precepts and the reasons for them. When we think about what it would be like if people were free to lie, break promises, and cause wanton injury to others, it is immediately evident why we have strong presumptions in favor of truth telling and promise keeping and against causing injury to others. A moment's reflection reveals the importance of ethics to business. Thomas Beauchamp and Norman Bowie say it forcefully, "the practice of business depends for its very existence on the moral behavior of the vast

majority...Imagine trying to practice business in a society where lying, stealing and other immoral actions were permitted...At a minimum business requires a society where contracts are honored and where private property is respected."

Ethical reasoning begins with the acknowledgment that the choices you make have consequences. The emphasis is on thinking, trying to step back from what can be a heated situation to coolly consider what to do. It is necessary to consider consequences for all who have a stake in the decision. And it is essential to pass before your gaze the widest range of options. Fortunately, in most situations there are a number of alternatives including a number of ethically acceptable alternatives, some better than others. Things may get complicated, but one is responsible for foreseeable consequences and there are some rules of thumb to help.

One such rule is to keep in mind the natural bias toward easy short-cuts. It is all too easy to overestimate the costs of doing the right thing and underestimate the cost of compromising on moral principles. Short-run costs have a way of seeming to outweigh long-run benefits. Those benefits seem remote and contingent. Here is an illustrative case we've used in teaching. Your engineers have informed you that a power plant you are building has a potentially serious defect-that poses threats of injury. The price of correcting it is in the millions. Your lawyers have informed you that,

given the number of probable injuries and the probable awards juries will make, your company would probably be financially better off if you did not correct the defect. Their reasoning assumes that, given the nature of the defect, few if any cases would be filed in the next five years; and that, given the court backlogs and the possibilities for delay and appeal, no cases would be finally decided for at least ten years. Ten years, is, of course, well beyond the profit horizon your company uses for planning and, since you plan to retire before then, beyond the time you need to worry about as well. You would be glad to let the defect be if it were not that your public relations people are worried about the long-term effect on your company's image. The company does have a reputation for social responsibility and good engineering. But it's hard to put a price on it so that it can be figured into profit ten years from now. So why worry?

A good test of a solution to a moral problem is whether it will stand the light of day. Could you acknowledge and explain it publicly?

I don't want to minimize the task of making ethical considerations part of business decision making. However, there are practical tools for reaching decisions that are ethically justifiable. And the complexities of ethical deliberation are preferable to acting on simplistic generalizations or unexamined assumptions even if we cannot guarantee unanimity about the right course of action.

Early on, I mentioned the belief that good ethics is good business. That is so in a way I explained--that business depends on most people's conformity with moral precepts. As I have urged, it is often so in another way: paying attention to what is the right thing to do can yield a cooler assessment of short-term risks against long-term benefits. However, again there is no guarantee that it will never be necessary to make sacrifices. In thinking about that, about just sometimes having to do what is right because it is right, even at some sacrifice, I was struck, more accurately stung, by a vignette from the Native American Guide who took us on a jeep trip to the desert. He was talking about native American ceremonies which featured dancing with religious significance. Those in charge had decided outsiders could witness the ceremonies but not take pictures. He said you know how Americans are--they say to themselves how can we take pictures without getting caught, and he imitated the ruses people use for fitting a camera under a coat or a scarf so as not to be seen. He commented that these people wouldn't say 'That just wouldn't be right.' This is what we are groping toward--being able to make decisions because, among other things, they are right.