ETHICS THE FRAMEWORK FOR SUCCESS

While some ethical decisions are simply a matter of right vs. wrong, the tough ethical decisions are right vs. right

BY STEVE HUNTER, CMA

The widespread attention given to the fall of companies such as Tyco, WorldCom, and Enron has led to an increased focus on ethics in the business world. Because of the enormous pressure to produce higher and better returns, some individuals at corporations have adopted the philosophy, "the ends justify the means." They fall into the trap of setting unrealistic budgets, improbable expectations, and unlikely goals. Not surprisingly, investor confidence has been low due to the many corporate scandals. Despite these results, however, firms continue to allow external sources, such as outside analysts, to define success.

Instead, companies must ask the following question: "Have we replaced our underlying business theme of 'succeeding at all costs' with 'succeeding only the right way'?" An ethical culture can ensure success by establishing appropriate expectations using proper guidelines, thus preventing the need or desire to be involved in any questionable business practices. Ultimately, success is about keeping your word, and companies that live up to their promises are successful.

While it's true that some businesses hold themselves to a higher ethical standard, not all companies operate in an ethical environment. Financial decisions often are made without considering the ethical implications. When companies don't hold themselves to high ethical standards, the impact reverberates throughout the financial markets. Companies are destroyed, jobs are lost, and retirement savings are decimated. One of the government's reactions to corporate wrongdoing was enactment of the Sarbanes-Oxley Act of 2002 (SOX). But as Gary Smith, CEO of CIENA, characterized it in the October 20, 2003, edition of *USA Today*, SOX was "'chemotherapy' to prevent the cancer from recurring after cutting out corporate tumors at Enron, WorldCom, and elsewhere."

Ensuring that an effective ethical culture exists in an organization isn't only a key factor in preventing the kinds of losses brought about by corporate frauds and avoiding the need for costly, burdensome legislation, but it can also enhance a company's reputation, improve morale, and even increase sales. This article examines top management's role in building an ethically minded culture, steps for making sound choices, and examples of ethical issues.

FROM THE TOP DOWN

Establishing ethical standards for a business should be the primary goal of executive management. Companies must design an environment that not only encourages high ethical standards but also produces ethically minded management, employees, suppliers, and customers.

To establish an ethical culture, top management *must* accept responsibility for the ethical climate within their organizations. In reality, the actions of top executives define a company's culture because employees emulate their boss's behavior. Michael Hackworth, author of "Only the Ethical Survive" in the Fall 1999 *Issues in Ethics*, believes top leadership is ultimately responsible for the culture of their organization, including the ethical culture.

To establish an ethical environment, top management needs to use five key elements to build trust: integrity, competence, consistency, loyalty, and openness with employees, vendors, and stakeholders. Stakeholder is a better word than stockholder because it represents the significant effect that business has on the community as a whole. Companies that operate under high ethical values don't have to spend any negative energy hiding wrongdoings if they make all decisions while considering the ethical implications. Most financial analysts agree that no single variable affects the climate of an organization more than the beliefs, practices, and ideas of its top management.

THE GOOD AND THE BAD

One company that provides a prime example of making good ethical decisions is Johnson & Johnson. In 1982, James Burke, then CEO, faced an ethical dilemma. The company experienced a major crisis when some of its Extra-Strength Tylenol capsules were found laced with cyanide. Faced with a difficult decision, Burke turned to Johnson & Johnson's credo: "We believe our first responsibility is to doctors, nurses, and patients, to mothers and fathers and all others who use our products and services." He ignored the immediate short-term financial implication and adhered to the attitude of "doing the right thing," ordering the recall of more than 31 million bottles at a cost of more than $100 million. This action set a new standard for crisis management. As a result of these events, the company developed the tamper-proof seal and gained even more market share and customer loyalty than it had before the incident.

To make choices like Burke requires individuals to take the steps listed in "A Framework for Thinking Ethically" from the Markkula Center for Applied Ethics at Santa Clara University (www.scu.edu/ethics):

- Be sensitive to ethical issues,
- Explore ethical aspects of a decision,
- Weigh the considerations that impact their course of action, and
- Have the moral courage to make the right ethical choice.

While companies will inevitably face difficult situations, their ability to make ethical decisions must not be compromised for any reason. Consider Exxon, for example. This company refused to accept responsibility for the Valdez accident, and their attempt to blame state and federal officials for delays in containing the spill damaged their reputation. Even today the name Exxon is synonymous with environmental catastrophe. Due to ineffective communication from Exxon, the public questioned their credibility and truthfulness. According to Jennifer Hogue in "What is Crisis Management?" (http://iml.jou.ufl.edu/projects/Spring01/Hogue/crisismanagement.html), a survey conducted by Porter Novelli several years after the accident found that 54% of respondents were still less likely to buy Exxon products.

THE DANIEL EFFECT

Everyone within an organization should work together to create the "Daniel Effect." This comes from the Old Testament account of a governing body trying to discredit Daniel in front of the whole kingdom of Babylon. In the *New King James Version*, the Book of Daniel, Chapter 6:3-4, says, "Then this Daniel distinguished himself above the governors and satraps, because an excellent spirit was in him; and the king gave thought to setting him over the whole realm. So the governors and satraps sought to find some charge against Daniel concerning the kingdom; but they could find no charge or fault, because he was faithful; nor was there any error or fault found in him."

Employees would benefit individually from this mindset during their careers by adhering to high ethical standards. Companies must build a strong ethical framework to withstand attacks from the public through frivolous lawsuits, competition's claims of wrongdoing, and any fraud attempted by their employees. Positive public perception is vital to success in the marketplace, which is protected by ethical behavior just as Daniel protected himself from his enemies by remaining faithful to his high moral standards.

Some ethical decisions, such as cheating on taxes, lying under oath, or overstating revenue and understating expenses, are simply a matter of right vs. wrong. The

ILLUSTRATION: WESLEY BEDROSIAN/WWW.WESLEYBEDROSIAN.COM tough ethical decisions are right vs. right. Four such dilemmas include truth vs. loyalty, individual vs. community, short-term vs. long-term, justice vs. mercy. Here are some real-world examples from Rushworth Kidder's *How Good People Make Tough Choices*:

- It is right to find out all you can about your competitor's costs and price structures—and right to obtain information only through proper channels;
- It is right to throw the book at good employees who make dumb decisions that endanger the firm—and right to have enough compassion to mitigate the punishment and give them another chance.
- It is right to protect the endangered spotted owl in the old-growth forests of the American Northwest—and right to provide jobs to loggers.

Unfortunately, no magic formula exists to guide management through these types of decisions. Companies must be willing to equally weigh the ethical repercussions of one decision over the other.

DIFFICULT CHOICES

In *Moral Courage*, Kidder relates the story of Eric Duckworth. A metallurgist by training, the recently married Duckworth took a position in 1949 with Federal Mogul, a firm that made bearings for internal combustion engines. His job description included examining damaged bearings returned by customers. He would determine the cause of the failure, report to the customers, and recommend changes to correct the problem. Most were due to misuse, improper installation, and lack of lubrication. Sometimes he discovered that the faulty parts were the result of production mistakes. His boss, the chief metallurgist, regularly tried to cover up such faults by refusing to divulge all the facts and by attributing the failure to end users mishandling the bearings, making no effort to compensate customers.

At first, Duckworth rationalized "that he was prepared to commit sins of omission but not of commission." Eventually, a particularly flagrant case drove him to write a completely honest report, which his boss rejected. Summoning his moral courage, he protested that he would resign if they didn't report the true findings to the customer. His boss, as well as the sales department, protested that such findings would cost them customers and perhaps more.

Fortunately, Duckworth previously had made several suggestions that increased the productivity of the manufacturing process and won him the admiration of the CEO, who backed him against his boss. The report went to the customer, who responded with a congratulatory letter that said: "We had always suspected concealment in some of your reports." In the wake of the company's newfound honesty, the customer increased orders. Duckworth later recalled his moral courage, "On one occasion when I was young and idealistic, I succeeded—and have been proud of it ever since."

My own experience illustrates how one benefit of ethical behavior is improved employee morale. The testing lab at a former employer of mine discovered a potential electrical hazard related to a specific motor supplier. Under unique circumstances that required the existence of several conditions, this motor had the potential to deliver an electric shock to the end user. The possible financial impact of rework or possible recall could cost the company millions of dollars. Our management team, aware of the chance for a possible recall, decided to report this issue to the Consumer Product Safety Commission (CPSC). Taking a pro-ethical approach had a positive impact on me and other employees because we all were impressed with the company's commitment to product safety.

SAFEGUARD THE FUTURE

Every day, management decisions affect individuals, families, and even nations. Before making a final decision, the goal should be to completely consider the ethical implications, including the immediate financial impact as well as the lasting consequences. If the organization's climate is to not permit wrongdoing of any kind, then employees are more likely to work harder for the company's common good. Ethical decision making safeguards an enterprise's future.

Managing companies in the ever-changing business environment is difficult even without falling into the trap of earnings-only management. But an organization's management can't concentrate on the future if it's worried about any past corrupt business dealings. An ethical culture cultivates realistic expectations with the focus on following sound and unquestionable business principles. Ethics improves goodwill, company perception, employee morale, and even sales. Ethics allows management to be focused on the future, thereby becoming the framework for long-term success. ■

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Ethics is a topic at IMA's Annual Conference, June 14-18, 2008, in Tampa, Fla. For information, visit www.imaconference.org.