"Richard Kyte's *Ethical Business* elevates business ethics from a process of rules-based problem solving to the practice of character-based relationship building. The author argues that ethical business leaders derive their power from trust, not coercion. The ethical businesses that Kyte describes reap the rewards of attracting more productive employees, more loyal customers, and more committed investors. Kyte provides a blueprint for building companies and brands in sync with today's increasingly socially conscious consumers."

—Frank J. Oswald
Lecturer, School of Professional Studies
Columbia University, New York

"Richard Kyte's *Ethical Business: Cultivating the Good in Organizational Culture* is an invaluable book that takes seriously the societal setting of business practices by using virtue approaches to engage business ethics. Kyte uses illuminating examples from real-world business leaders and companies, as well as from the news, literature, and films. His wise treatment of the roles of power, trust, and meaning will be especially useful for those who seek to reflect more deeply on how to create healthier working environments. I highly recommend this outstanding book for use in classrooms, board rooms, offices, and homes."

—Paul F. Jeffries, PhD
Associate Professor of Philosophy
Ripon College

"In *Ethical Business*, Richard Kyte has provided readers with an approach that departs significantly from most business ethics textbooks. Using vivid real-life examples, Kyte highlights the many critical aspects of an organization that contribute to an ethical culture. The book is well written and is useful for both the student of business ethics and the practicing manager."

—K. Praveen Parboteeah
University of Wisconsin—Whitewater

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ETHICAL BUSINESS

Cultivating the Good in Organizational Culture

RICHARD KYTE

ANSELM ACADEMIC

For Lindy

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Contents

Introduction

What does it mean for an organization to be ethical? Does it mean simply that it does not get involved in scandals or that it doesn't break any laws? Or does it mean something more? For example, might it mean that the organization contributes something positive to society—by providing living wages for its employees, a reliable return on investment for its shareholders, or support for charitable organizations in communities? Might it mean even more? Might it mean that it provides meaning and purpose to the lives of its employees or that it enhances the life of the community in which the organization resides?

These are some of the questions raised in this book, and the answers provided draw upon an expansive view of ethics, considered not just as "doing the right thing" but also as living well or flourishing. If the goal is living well, then organizational ethics should focus not just on how to respond to problems as they occur but on how to create the working conditions under which people can flourish.

Work, after all, is central to most people's lives. American full-time employees work an average of forty-seven hours per week—spending more time working than on any other activity.[1] Without good working conditions—including a sense of worthwhile purpose, fair treatment by one's employer, respect and civility from one's colleagues, clients, or customers—it is difficult for the rest of one's life to go well. Good work is integral to a good life. And that is why ethics is not just about individuals doing "right things." It is also about organizations creating conditions in which life can be "good."

Some people are fortunate in their employment. Their work is energizing, fulfilling, and challenging. They look forward to going to work in the morning, and they come home at the end of the day full of satisfaction, eager to tell others about what they accomplished. They see their work as important, others regularly show appreciation

1. "The '40-Hour' Workweek Is Actually Longer—by Seven Hours," *Gallup*, August 29, 2014, *http://www.gallup.com/poll/175286/hour-workweek-actually-longer-seven-hours.aspx*.

for the contribution they make, and they have friends at work with whom they enjoy spending time.

And yet, far too many people struggle day after day, in frustration and stress, because they are treated unfairly, find little or no purpose in their work, or have to endure intimidation and uncertainty. They live lives of fear and discouragement, a condition Thoreau called "quiet desperation," and do not know what to do about it. They are afraid to say anything because they have no reason to think that things would improve and every reason to suppose that things will get worse if they speak up.

For most people, perhaps, work falls somewhere between these extremes, and at different stages in one's career, one is likely to experience periods of both fulfillment and discouragement.

What has all this got to do with ethics?

Everything. If one starts with the view that ethics is about the conditions of a good life, this is obvious. It is a view with a long history, beginning with Aristotle, who claimed that the highest good is happiness (or "flourishing") and that ethics is the study of the conditions that contribute to happiness.[2] It is not so obvious if one takes a more contemporary view of ethics, particularly applied ethics, which restricts ethics to resolution of conflicts stemming from serious disagreements.

Imagine Lisa, a recent graduate with a four-year degree in management from a reputable university. She lands a job in the human resources department of a company that operates several nursing homes. She enjoys the work and the people. The director of her office is demanding but fair, and she feels proud of herself as she begins to learn the ropes. The only thing troubling her is a disquieting feeling that everything may not be on the up and up. When visiting one of their sites, she overhears a conversation in which family members are told that Medicare eligibility could be extended by creating a "medical emergency" and hospitalizing the patient. Upon returning from the hospital, the patient's nursing home costs would be covered for an additional hundred days. This sounds to Lisa like fraud, but she isn't sure; the way the situation was discussed made the process seem

2. This view is known as "virtue ethics," and more will be said about it in subsequent chapters.

normal, as if it was something the nursing home administration did routinely. When she brings the matter up with her supervisor the next day, she is told bluntly, "That's not your concern. You just focus on what you were hired to do."

Situations like Lisa's are often referred to as "ethical dilemmas." She finds herself faced with a difficult question of the right thing to do, and yet, it is not the sort of dilemma that she recalls from her business ethics course the previous year. First of all, it is not even clear to her that anybody is acting unethically. She just overheard a bit of conversation, and she doesn't know much about Medicare requirements or even what sorts of practices are standard in the nursing home business. Second, it is not clear whether she has a responsibility to do anything about it. She does not work in the billing department, and her supervisor told her to stick to her own work. Should she invest time and effort into getting more information, risking a reprimand or worse if her supervisor finds out? And why should she go behind her supervisor's back? Doesn't she trust him? Doesn't she want him to trust her? It is very confusing.

In the classroom, ethical dilemmas are discussed and solutions deliberated in a nearly ideal setting. During the course of the semester, students get to know one another and a level of amiability and trust develops. If the class is well-managed, students are not afraid to share their deeply held convictions and, sometimes, their vulnerabilities with their professor and classmates. If everyone does not agree on how to resolve a difficult case, no matter. They move on to the next one. Even if a student disagrees with the professor, that's okay, as long as she backs up her position with sound reasoning.

But Lisa is not in the classroom. The situation she is facing is not hypothetical but real. And with reality comes strong emotions, like desire and fear: Lisa wants to believe her life amounts to something, that by doing her job well, she is helping people. She does not want to participate in fraud, but she does want to get along with the people with whom she works, especially her supervisor. She wants to earn his trust and respect. She does not want people to start treating her with suspicion. She definitely does not want to lose her job.

Will Lisa become cynical as the years pass? Many people do. Faced time and again with situations similar to Lisa's, they begin to feel that "business ethics" is an oxymoron. "Ethics is fine for the classroom," they might say, "but you quickly learn that work does not take place in an ivory tower. You adapt and survive and do what you have to do. That's what the real world demands."

But is that what the "real world" demands? Or is it just what some workplaces demand, while other employees, at other workplaces, find a much different set of behaviors and expectations?

This book contends that the range of possibilities for organizational life is vast, and that good workplaces, characterized by openness, trust, respect, and integrity, are not only possible but more likely to be healthy and successful.

If Lisa worked in such a place, and her supervisor was one of the people who sustained a culture of trust, she could ask questions about what she heard, they could talk about it, and then they could decide together what to do, if anything. This reveals a fundamental fact about ethical decision making in the workplace: it is fully effective only within the context of an already established ethical culture. In the absence of such a culture, ethical decision making is severely limited, because the open dialogue upon which it depends cannot take place.

This book is premised on the conviction that there are two broad types of ethical orientation especially relevant to the workplace. The first is *preventive*: it pays attention to building an ethical culture and establishing quality relationships among stakeholders in an organization, including executives, managers, employees, trustees, shareholders, customers, and community members. The second is *reactive*: it consists of figuring out what to do after things have gone wrong.

Reactive thinking is necessary, but necessarily limited. Sometimes there is no "good" thing to do. For example, the best thing for Humpty Dumpty is not to sit on the wall in the first place. After he tumbles from his precarious perch, there is no putting his shell back together again, no matter how well trained the king's men are in crisis management. Likewise, little is to be gained by trying to figure out "who is to blame" for a problem if there is no clear way to ensure it will not happen again. When something goes wrong in an organization, it is natural to react to the immediate need and ask, what should we do now? Nevertheless, for the long-term health of the organization, the more important question to ask is, what are the conditions that allowed this to happen?

Some would argue that the best way to establish an ethical culture is to develop a clear set of expectations, perhaps a code of ethics or values, a detailed list of policies explaining acceptable and unacceptable behavior, and a robust compliance program with people responsible for training and enforcing the policies.

But just as ethical decision making cannot stand on its own, neither can compliance. The central argument of this book is that a virtuous business culture creates the very conditions under which both ethical decision making and compliance can be effective. In an unethical business culture—a workplace characterized by fear, greed, distrust, manipulation, or dishonesty—genuine, sincere deliberation does not occur. That is perhaps obvious. But what is less obvious is that compliance is also undermined by an unethical culture. Codes, policies, and sanctions, after all, are just tools. In the right hands, they can be used positively and effectively. In the wrong hands, they can be destructive. It all comes down to who is using the tools, and why they are using them.

Consider, for example, a whistle-blowing program in a large corporation. In a healthy organization with reasonably high levels of trust and transparency, the program can be used to help identify individuals who are violating laws or codes of conduct. It can be the starting point for sincere investigations into allegations of wrongdoing that aim to make the organization better. But in a dysfunctional organization characterized by fear and distrust, whistle-blowing programs often serve to empower the wrongdoers. An employee witnesses a supervisor taking a bribe. She reports it through the whistle-blowing program. Weeks go by and she hears nothing back. An investigation may or may not be taking place, but information about it is not communicated. Meanwhile the supervisor's misconduct continues, and other employees observe and report it. Two more employees call the whistle-blower hotline. These employees talk to one another. The supervisor learns of the reports and begins taking revenge on the whistle-blowers—denying vacation requests, handing out disagreeable assignments, giving poor performance reviews. It seems the company cares more about protecting the supervisor than its employees. A sense of frustration and despair settles over the workplace.

Are whistle-blower programs important? Absolutely. This is especially true in large organizations where issues of accountability cannot be handled adequately in an immediate, face-to-face manner. But a whistle-blower program is not insurance against misconduct any more than a seat belt is insurance against injury. It has to be used, and used correctly, to be effective, but even then it can only function to reduce harm, not eliminate it.

This book is an attempt to take a big-picture look at the role of ethics in organizations. Its aim is not exhaustive; it does not try to cover all of the various sorts of ethical problems that can (and often do) arise in business settings. Rather, its aim is corrective, trying to redirect focus onto issues of culture first and problem solving second, demonstrating the many ways that good decision making depends upon the context of an ethical culture and also how good decision making, in turn, enhances and strengthens an ethical business culture. To this end, the first three chapters focus on ethical culture specifically, looking first at its basic components in chapter 1, the importance of ethical leadership in chapter 2, and relationships within healthy organizations in chapter 3. Chapter 4 describes a model for ethical decision making (the "Four-Way Method"). The use of that model is demonstrated in chapter 5, which includes a discussion of several case studies that provide an opportunity for addressing some of the persistent challenges facing those who endeavor to cultivate goodness.

Characteristics of organizational culture are best conveyed through stories. And so, distributed throughout the book are short stories of inspiring people who nurture and sustain an ethical culture in their organizations. For centuries, telling stories about good people has been the primary way of teaching ethics, because virtues, in the end, are grasped not by definition but through description, in stories told about the lives of the people who embody them.

CHAPTER 1

Growing Ethical Cultures

Lawn mowers and snowblowers are inherently dangerous. No matter how safe the Toro Company makes its machines, some people still get injured. Sometimes, they sue the manufacturer. The challenge for Toro is how to respond.

Generally speaking, deciding how to respond to lawsuits is considered a legal or financial matter, not a matter of ethics. After all, even if a company makes a dangerous product, as long as it incorporates the latest safety features, affixes the appropriate warning labels, and properly informs the customer about correct use of the product, it should not be held responsible for injuries. The company has every right to defend itself against lawsuits. The courts can decide where the fault lies. Anyway, that's the standard way of thinking.

But Toro does not think about injuries involving their products in the standard way. When Ken Melrose became CEO in 1983, he quickly went to work cultivating a new corporate culture focused on developing good relationships throughout the company, with management, employees, and customers. He envisioned a culture built on trust.

A culture of trust requires a willingness to admit fault, to share and collaborate to find solutions with mutual benefit. Lawsuits inevitably put people in adversarial positions; lawsuits create distrust by favoring solutions that have winners and losers. So Toro's product liability team came up with something called "alternate dispute resolution." Whenever someone was injured using one of the company's products, regardless of who might be at fault, they sent a team to investigate and—this is the crucial part—express remorse.

The remarkable thing about this story is that Toro's lawyers initiated the change. Here is how Ken Melrose describes it:

> In the early '90s, our product liability team thought the way we dealt with injured customers was inconsistent with our culture values. Though we were winning most of the cases, we still lost in effect, because of the financial costs and use of time and resources. Perhaps just as bad, we were treating the affected customers as the enemy. The legal team thought this was wrong, since our culture is about valuing people, both customers and employees.[1]

Toro went from an average of one hundred lawsuits a year, with half of them ending up in court, to settling two-thirds of their cases in-house and using a mediator for the rest. In the first fifteen years of the program, only one injury case went to court. In the first three years alone, Toro's liability insurance premium was reduced by $1.9 million.[2] Since that time, many other companies have followed Toro's lead and adopted mediation procedures for responding to liability issues. Many have done so because it makes good financial sense; others because it fit their culture; but few went as far as Toro in actively seeking out and establishing a relationship of goodwill with injured customers.

At the time Toro made the change, they did not know what would happen. They did it because it seemed like the right thing to do. And it seemed like the right thing to do because they had developed a culture that influenced people's perceptions of one another. Their customers went from being potential adversaries to neighbors.

This is part of what it means to develop an ethical culture: getting relationships right. That sounds simple, but it is actually

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1. "Kendrick B. Melrose: Caring about People: Employees and Customers," *Ethix*, October 1, 2007, *http://ethix.org/2007/10/01/caring-about-people-employees-and-customers*. For the full story of Toro's culture change, see Kendrick B. Melrose, *Making the Grass Greener on Your Side: A CEO's Journey to Leading by Serving* (San Francisco: Berrett-Koehler Publishers, 1995).

2. Drew Mallick, "US Corporations Should Implement In-House Mediation Programs into Their Business Plans to Resolve Disputes," *Harvard Negotiation Law Review*, March 18, 2009, *http://www.hnlr.org/2009/03/us-corporations-should-implement-in-house-mediation-programs-into-their-business-plans-to-resolve-disputes/*.

extraordinarily difficult because people are complex beings, and organizations are complex arrangements of people.

The goal of the present chapter is to get a better understanding of what an ethical culture is. What does such a culture look like? Why is it important? What are its basic components or identifying features?

The Classical Virtues

A sensible place to start looking for the components of an ethical culture is in an organization's core values. After all, core values are intended to identify what a company stands for, what its most basic commitments are. And yet, it is surprising how many employees have difficulty naming their organization's core values. That is not necessarily due to a lapse of attention or memory on the part of the employees; rather it points to the fact that what leaders identify as their organization's "values" are frequently not grounded in the organization's character. Ask the same employees to describe the positive and negative traits of their organization—its virtues and vices—and they can readily tell you. For organizations, just as for individuals, there is often tension between how one acts and how one wants to be perceived.[3]

Consider the core values of the following organizations: Delta Airlines, Enron, Microsoft, and Verizon.

- Delta Airlines: honesty, integrity, respect, perseverance, servant leadership[4]
- Enron: respect, integrity, communication, excellence[5]
- Microsoft: integrity, honesty, passion, big challenges, open, respectful, accountable, self-critical[6]

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3. See David Burkus, "A Tale of Two Cultures: Why Culture Trumps Core Values in Building Ethical Organizations," *Journal of Values Based Leadership* 4, no. 1 (Winter/Spring 2011), for a comparison of two very different corporate cultures: Enron and Zappos, *http://www.valuesbasedleadershipjournal.com/issues/vol4issue1/tale_2culture.php*.

4. Delta "Rules of the Road," *http://www.delta.com/content/dam/delta-www/pdfs/policy/delta-rules-of-the-road.pdf*.

5. Enron Code of Ethics, Enron (2000), *http://www.thesmokinggun.com/file/enrons-code-ethics*.

6. Microsoft, "Our Core Values," *https://www.microsoft.com/en-us/legal/compliance/buscond/overview.aspx*.

- Verizon: "We believe integrity is at the core of who we are. It establishes the trust that is critical to the relationships we have."[7]

Each organization emphasizes integrity as a value at the heart of its corporate culture. What precisely does that mean? Does it mean they all think integrity is a desirable characteristic of their organization? Does it mean they evaluate employees on the basis of integrity? Or does it mean that integrity accurately describes the character of their organization? Finally, does each organization even mean the same thing by the word "integrity"?

Such questions arise naturally as soon as one inquires into the nature of ethical culture and looks at the ways organizations typically try to define it for themselves. The difficulty in answering such questions reveals the severe limitations of the very idea of core values. This is not to say that value statements are meaningless; rather, they do not by themselves tell us very much about an organization.

To create and maintain an ethical culture, an organization must not only decide what it wishes to be (values), it must also take practical steps to make positive traits (virtues) a part of its everyday behavior and to root out negative traits (vices). And to do that, the leaders of an organization must know which traits are positive and which are negative. In other words, the leaders of an organization must know what makes a good (i.e., healthy, successful, or flourishing) organization. That is surprisingly difficult. There is no widely accepted definition of a "good" organization.

What if an organization has high earnings, but low employee engagement? Can an organization flourish if people do not like working there? On the other hand, if a company has high employee engagement but is on the verge of bankruptcy due to poor planning, would such a company be considered good? What if a company has high earnings and high engagement, but it manufactures something detrimental to the environment? In each of these cases, the organization may be said to lack integrity but for different reasons.

Consider the well-known children's story: *The Three Little Pigs*. The three pigs set out to make their way in the world, and each of

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7. Verizon, "Who We Are," *http://www.verizon.com/jobs/verizon_credo.html*.

them decides to build a house. The first pig builds a house of straw, the second a house of sticks, and the third builds a house of bricks. A wolf comes along and huffs and puffs and blows down the houses of the first and second pigs, but he cannot destroy the brick house.

The story has been told to generations of children not just because (from the children's point of view) it is highly entertaining but also because (from the adults' point of view) it provides enduring lessons about character. What are those lessons?

The first two pigs come to a bad end because their efforts are slapdash; they lack foresight, persistence, and an ability to distinguish between needs and desires. The third pig, by contrast, possesses character traits that have long been valued in many different societies. First, he has *wisdom*, that is, he understands that his house may be needed to protect him from outside threats, so he makes it much stronger than it has to be during ordinary times. Second, he has *courage*, a strength of spirit demonstrated by his persistence in continuing to work on his house long after the other pigs have finished theirs and even, in some versions of the story, in spite of their ridicule. He is not afraid of appearing foolish. Third, he has *temperance*; that is, he invests his resources in the right things—the bricks needed to build a strong house and the time and effort to build it—which most likely requires him to forfeit some of the things he would otherwise like to have. The combination of these traits results in *integrity*, represented by the house itself: well-built, sturdy, able to withstand stress and strain. Integrity literally means "wholeness" or "strength," but in recent years, it has come to have a much broader range of meanings, quite similar to what used to be included under the classical virtue of *justice*.[8]

The four virtues of wisdom, courage, temperance, and justice are known as the "cardinal virtues." The earliest articulation of the cardinal virtues is found in Plato's *Republic*, and it arguably remains the best attempt to define goodness for individuals and groups. Plato tells of Socrates proposing that justice be thought of as a kind of harmony that results when a person or a society possesses wisdom,

8. Since in recent times the word "justice" has become associated almost exclusively with the realm of law and the courts, it is perhaps no surprise that another word (i.e., "integrity") took over its role of describing a life combining a multiplicity of virtues.

temperance, and courage. He claims that when all three virtues are present, and when wisdom leads the other two, then the fourth virtue, justice, naturally results.[9]

It is no accident that the idea of four cardinal virtues has persisted for 2,500 years and that we continue to find them expressed in various ways in cultures around the world. The cardinal virtues are grounded in an understanding of human nature as threefold: mind, body, and spirit. And even though values may vary greatly from one society or individual to the next, human nature remains essentially the same. That is, human beings are creatures who make decisions (mind), who desire (body), and who experience strong emotions like fear, anger, and pride (spirit). If you look around, you can see references to the three parts of human nature everywhere. Consider, for example, the YMCA logo.

© Ken Wolter / Shutterstock.com

The new YMCA logo incorporates a triangle representing mind, body, and spirit.

The logo, adopted in 2010, incorporates a triangle into the overall shape of a "Y." A press release explained the significance of the new design:

> The refreshed logo, with its multiple color options and new, contemporary look, better reflects the vibrancy of the Y and the diversity of the communities it serves. The new logo's bold, active and welcoming shape symbolizes the Y's commitment to personal and social progress.[10]

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9. Plato, *Republic* 4.428a–435d, trans. G.M.A. Grube, rev. C.D.C. Reeve (Indianapolis: Hackett, 1992), 103–11.

10. The Y, "A Brand New Day: The YMCA Unveils New Brand Strategy to Further Community Impact," *http://www.ymca.net/news-releases/20100712-brand-new-day.html*.

There is no mention of why a triangle is featured in the design, but anyone familiar with the organization's history knows that a triangle has always been part of the YMCA image. That the triangle was intentionally chosen to symbolize the three components of a human being—mind, body, and spirit—and by inference their corresponding virtues, is evident in earlier versions of the logo.[11]

The L. Frank Baum novel, *The Wizard of Oz*, is another example of the pervasiveness of the cardinal virtues. The Scarecrow thinks he is foolish, the Tin Man thinks he has no feelings, and the Lion believes he is cowardly. Each believes he is deficient in mind, body, or spirit, but it turns out that they do in fact have those virtues, and working together, they succeed in rescuing Dorothy. They function as a team, demonstrating the integrity (wholeness or strength) of the three cardinal virtues working hand in hand. In the end, the Wizard acknowledges their strengths, revealing a significant insight about the virtues: they are more likely to be recognized by others than by the person who possesses them.

For more than two thousand years, in cultures all over the world, the cardinal virtues have been considered the key characteristics of a flourishing life—a life of wholeness, strength, and goodness—a life of integrity.

Organizational Hero
Louise Hemstead

As chief operating officer for Organic Valley, a big part of Louise Hemstead's job is ensuring the quality and safety of their products. It's what keeps her awake at night and keeps her on the road throughout the year, meeting with members and partners all over the country.

Organic Valley is the largest organic, farmer-owned cooperative in North America. From a modest beginning in 1988 with

Continued

11. See "The History of the Y Logo," *http://www.ymca.net/sites/default/files/pdf/y-logo-history.pdf*.

Organizational Hero: LOUISE HEMSTEAD *Continued*

just four family farms, the cooperative has grown to include 1,779 members. They sell dairy products, such as milk, cheese, and butter, as well as eggs, meat, and produce.

The consumer market for organic food has grown tremendously in recent years, mainly due to concerns about the safety and nutritional value of traditionally farmed products. Organic certification requires products to be grown without the use of synthetic fertilizers, hormones, herbicides, or pesticides. But customers also expect more. They expect the "organic" label to mean assurance of safety for every product throughout the farm-to-table journey. That is why Organic Valley goes to great lengths to ensure that all dairy products are safe, passing fifty-seven points of inspection in a program overseen by twenty-five full-time employees dedicated to quality assurance.

But quality assurance at Organic Valley began with just one person: Louise Hemstead. In 1993, Louise and her husband, David, owned a small dairy farm just down the road from the newly formed co-op. With two young children at home, the twenty-five cow farm was not enough to support their family, so Louise applied for a position as the dairy program coordinator at Organic Valley. She became the co-op's first dairy professional.

One of her early tasks was to test products for contaminants. She discovered that 35 percent of the cheese tested positive for *E coli*, a bacteria that can cause serious health problems. At that time, Organic Valley was a pioneer in the field of organic dairy, and there were few industry standards. Little was known about the potential seriousness of bacterial contamination. When she reported the results to her superiors, they told her not to worry about it. After all, they reasoned, hadn't they sold the same cheese the week before without anybody getting sick? But Louise was insistent: "Either the cheese goes, or I go."

She left work that evening not knowing what her bosses would decide to do. Halfway home, she pulled off onto the side

Continued

Organizational Hero: Louise Hemstead *Continued*

of the road, tears in her eyes. She reflected on what she had done. Would she still have a job in the morning? How would she and her husband support their young family?

The next morning, she returned to work to find that Organic Valley had decided to get rid of the contaminated inventory. "That was a huge hardship for the co-op," Louise said. "Harder than I knew at the time. We were barely surviving. But it was the right thing to do."

Companies, just like people, grow through a maturing process, and early decisions set the stage for future growth. The stand Louise took on contaminated cheese was the first step in establishing a corporate culture dedicated to safety and quality. But it also was a crucial step in Louise's professional growth, earning her respect throughout the company as a person of integrity.

The Limits of Compliance

One may be inclined to think that there are ways to ensure integrity without appealing to character. If only one puts into place the right rules and policies, and then provides training along with relevant sanctions and incentives, good behavior will result. To some extent, that is true. A good compliance framework—that is, a set of policies or standards that communicate an organization's expectations, training programs that serve to remind people what the standards are and also establish a common vocabulary for ethical behavior, and effective instruments for assessing whether members of an organization are abiding by the standards—can be very important. That is especially so in large organizations where informal means of communication cannot be relied upon to establish and maintain a shared vision of the group's expectations.

But codes, rules, policies, and standards are no substitute for character. They only address people's behavior, not their motivations. And there is no way to anticipate in advance all the ways a person should act to do what is good, or all the ways a person must refrain from acting in order to avoid doing harm. The more one tries to be detailed and exhaustive in specifying desired and undesired behaviors, the more likely one is to unintentionally discourage some significant good behaviors and encourage some bad behaviors. In an organization comprised of many people with questionable character, a strong compliance program may be helpful to keep people "in line" and to keep really bad things from happening. But in an organization comprised of virtuous people, a strong compliance framework is more likely to hold an organization back, to keep it from reaching its ethical potential.

To understand why this is so, consider the example of a hospital janitor who was interviewed about her job as part of a research study: "Charlayne told [the researchers] about how she ignored her supervisor's admonitions and refrained from vacuuming the visitors' lounge while some family members, who were there all day, every day, happened to be napping."[12]

Charlayne did the right thing, even though it was contrary to policy, because she understood that the mission of the hospital was to care for patients and that caring for family members of patients went along with that mission. She had a proper understanding of her role in relation to the mission (wisdom), and she was not afraid to go against her supervisor's instructions in order to do the right thing (courage).

At the university where I work, a custodian named Wayne came into a classroom one day and handed a student a bottle of soda. As he did so, he said, "Thank you for telling me about the spill so I could get it cleaned up quickly." When asked about it later, he explained,

> The student dropped an open bottle of soda on the stairwell, and it sprayed all over the walls and steps down two flights of stairs. He found me right away and told me what happened, and I could tell he felt really bad about it. So after cleaning up the stairs, I went over to the vending machines and bought him a new one. I just wanted to let him know I wasn't upset.

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12. Barry Schwartz and Kenneth Sharpe, *Practical Wisdom: The Right Way to Do the Right Thing* (New York: Riverhead Books, 2010), 16.

There is nothing in Wayne's job description that requires him to be generous to others, to go out of his way to make the people he interacts with feel better, but he did these things anyway. His wisdom led him to understand that the action was important; his temperance led him to do it even though he had to pay for the soda out of his own pocket.

The interesting thing about these examples is that the people in them do the right thing not because of the rules but despite the rules, which means they have some other way of determining what should be done in a particular situation. They think broadly about organizational purpose, and then they think about how best to accomplish that purpose given their role within the organization and the tools at their disposal. In other words, they use practical wisdom.

Traditional ethics programs that emphasize compliance often don't work, or at least they don't work as well as intended, because they tend to be too narrowly focused on precisely *how* things should be done (rules and policies) instead of *why* something should be done (purpose). Training that focuses on organizational values tends to be more successful, probably because values are often explicitly or implicitly connected to purpose, but still the desired effect of promoting more ethical behavior tends to be short-lived.[13]

Why doesn't ethics training lead to lasting improvement? To begin to understand the answer, the question must be put in the context of a much larger one: why do people—even basically good people—do bad things?

One of the earliest philosophical explorations of this question comes from Saint Augustine. In his *Confessions*, he asks, Do people ever do bad things for no good reason at all, just because they want to do something bad? Augustine considers a number of examples, including a story from his own childhood when he and some other kids stole pears from an orchard.

> There was a pear tree near our vineyard, heavy with fruit, but fruit that was not particularly tempting either to look at or to taste. A group of young blackguards, and I among

13. See Danielle E. Warren, Joseph Gaspar, and William S. Laufer, "Is Formal Ethics Training Merely Cosmetic? A Study of Ethics Training and Ethical Organizational Culture," *Business Ethics Quarterly* 24, no. 1 (2014): 85–117.

> them, went out to knock down the pears and carry them off late one night, for it was our bad habit to carry on our games in the streets till very late. We carried off an immense load of pears, not to eat—for we barely tasted them before throwing them to the hogs. Our only pleasure in doing it was that it was forbidden.[14]

Surely, Augustine thought, that is a case in which he did something just because it was wrong, and for no other reason: "I had any number of better pears of my own, and plucked those only that I might steal."[15] But then he reconsiders: even though he did not want the pears themselves, perhaps there was some other motive. "Now—as I think back on the state of my mind then—I am altogether certain that I would not have done it alone. Perhaps then what I really loved was the companionship of those with whom I did it. If so, can I still say that I loved nothing over and above the thievery?"[16]

Augustine concludes that he stole the pears because he wanted to earn the esteem of the other kids. He valued friendship. That, in itself, is a good thing, but not when it comes at the cost of doing harm to someone else.

In the end, Augustine answers his original question: people always do what they think is "good" (in some respect) at the time. People may very well know that their action is against the law, or against societal custom, or against another person's wishes, but they will always have some positive reason, something they want to accomplish through their actions.

Augustine concludes that the reason people do bad things is not because they want something bad to happen; rather, they do them because it seems at the time to be "good" in some respect, even if they know it is against the law or contrary to moral standards. After all, in stealing the pears he did something that he knew was considered to be "wrong," but, at the same time, it seemed to him like a good thing. It seemed like a means to achieving something worthwhile, namely friendship.

14. Augustine, *Confessions* 2.4, trans. F.J. Sheed (Indianapolis: Hackett, 1993).

15. Ibid., 6.28.

16. Ibid., 8.30.

This leads Augustine to reflect that the source of all wrongdoing, deeply ingrained in human nature, is ignorance. Such ignorance takes three forms.

- The first form of ignorance is unintentional, as when one does not know what the right thing to do is or happens to be ignorant of the negative effects of his or her actions upon someone else. An example would be the owner of a small business who requires employees to buy their own uniforms, not realizing the significant financial burden he or she is placing upon some of them in the first few weeks of a new job.
- The second is willful ignorance, also known as self-deception. An example is when one purposefully directs one's attention away from certain features of a situation. In Augustine's story about stealing the pears, he does not think about how the loss of the fruit may affect the owner of the pear tree; his attention is directed elsewhere, toward what his companions think about him.
- The third type of ignorance is misplaced desire. Sometimes, one wants the wrong sort of things, things that may be harmful to oneself, or things that may be good in some narrow sense but not in a broader sense. A toddler may reach for a cup on the table, not knowing that he really would not like hot coffee. A mid-level manager may want a promotion, not realizing that the increased stress that the new job brings will make her miserable. In Augustine's example, he discovered that while it is good to have friends, the bonds formed by trying to impress some by harming others do not constitute genuine friendship, and they eventually prove illusory.

The three types of ignorance are not exclusive. Indeed, they frequently complement and reinforce one another. Consider a recent op-ed piece from a former Wall Street trader, Sam Polk. He explains why he gave up his profession, despite earning more than he had ever dreamed was possible by the age of thirty:

> I wanted a billion dollars. It's staggering to think that in the course of five years, I'd gone from being thrilled at my first bonus—$40,000—to being disappointed when, my second

> year at the hedge fund, I was paid "only" $1.5 million. But, in the end, it was actually my absurdly wealthy bosses who helped me see the limitations of unlimited wealth. I was in a meeting with one of them, and a few other traders, and they were talking about the new hedge-fund regulations. Most everyone on Wall Street thought they were a bad idea. "But isn't it better for the system as a whole?" I asked. The room went quiet, and my boss shot me a withering look. I remember his saying, "I don't have the brain capacity to think about the system as a whole. All I'm concerned with is how this affects our company." I felt as if I'd been punched in the gut. He was afraid of losing money, despite all that he had.[17]

Polk likens the greed of his fellow traders to drug addicts who will do anything to get a fix. Their misplaced desire for fantastic sums of money leads to fear of losing their wealth and a very narrow focus on what is good for them individually to the exclusion of all others. Greed leads to cowardice, which leads to ignorance. And the result, concludes Polk, is a financial system without integrity.

> I'd always looked enviously at the people who earned more than I did; now, for the first time, I was embarrassed for them, and for me. I made in a single year more than my mom made her whole life. I knew that wasn't fair; that wasn't right. Yes, I was sharp, good with numbers. I had marketable talents. But in the end I didn't really do anything. I was a derivatives trader, and it occurred to me the world would hardly change at all if credit derivatives ceased to exist. Not so nurse practitioners. What had seemed normal now seemed deeply distorted.[18]

When people are under the influence of a "deeply distorted" picture of themselves and the world in which they live, their choices inevitably exhibit the qualities of injustice. It is not that they are purposefully making "bad" choices, but neither is there a sound context

17. "For the Love of Money," *New York Times*, January 18, 2014.

18. Ibid.

for making "good" choices. In such a situation, it may be difficult to address questions of ethics in a straightforward fashion. Simple statements of core values, rules, and policies may be effective guides to ethical choices when the people who are using them already possess good character. Such an approach to corporate ethics may effectively address problems caused by unintentional ignorance by providing basic reminders of what to do or how to do it. In order to counteract misplaced desire, an organization may need to go further, implementing a strong compliance program consisting of incentives for good conduct and sanctions for improper conduct. But even that will do very little to address the deeper forms of moral disengagement that come from self-deception and grossly misplaced desire. To do that, an organization must focus on the development of good character. Indeed, without good character as a starting point, well-intentioned attempts to motivate good behavior may even be counterproductive.

Recent research on the effectiveness of financial incentives to encourage better behavior challenges the seemingly commonsense assumption that the more you reward people, the more likely they are to engage in ethical behavior. Here is how Barry Schwartz sums up a few of the studies:

> Swiss economists Bruno Frey (University of Zurich) and Felix Oberholzer-Gee (Harvard Business School) have shown that when Swiss citizens are offered a substantial cash incentive for agreeing to have a toxic waste dump in their community, their willingness to accept the facility falls by half. Uri Gneezy (U.C. San Diego's Rady School of Management) and Aldo Rustichini (University of Minnesota) observed that when Israeli day-care centers fine parents who pick up their kids late, lateness increases. And James Heyman (University of St. Thomas) and Dan Ariely (Duke's Fuqua School of Business) showed that when people offer passers-by a token payment for help lifting a couch from a van, they are less likely to lend a hand than if they are offered nothing.[19]

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19. "The Dark Side of Incentives," *Bloomberg Businessweek Magazine*, November 12, 2009, *http://www.bloomberg.com/bw/magazine/content/09_47/b4156084807874.htm*.

The reason financial incentives often fail to work the way they are intended is that they do not enhance altruistic motivation; instead, they compete with it. Instead of giving support, for example, to a person's prosocial impulse to help another, they appeal to the person's self-interest. And if the self-interest motivation isn't sufficient to generate the desired behavior, the person is less likely to do it than without the incentive.

James Heyman and Dan Ariely explain this by suggesting there are really two types of markets: monetary and social.[20] If businesses try to encourage employees to do what is right by offering a financial incentive, they may unintentionally undermine the social motivation that already is in place. In short, if you begin with the assumption that most people are basically selfish, cowardly, and foolish, and provide incentives for them to do the right thing based on that assumption, they are more likely to respond as if they actually are that way. The assumption becomes self-fulfilling.

To repeat, integrity is the virtue of wholeness and strength. It can only be maintained in the presence of wisdom, which addresses ignorance; courage, which addresses fear; and temperance, which addresses misplaced desire. These are the necessary conditions of integrity. One could think of them as the three legs of a stool. Remove any one of them and the stool cannot stay upright. Ignorance, fear, and greed can undermine even the most thorough ethical framework.

In hindsight, this can seem obvious. On July 1, 2000, Ken Lay, CEO of Enron, sent a memo to all employees describing the corporation's core values. At the time, the Houston, Texas–based energy company was widely regarded as one of America's most successful companies, with more than $100 billion in annual revenue and twenty thousand employees. Eighteen months later, the company declared bankruptcy. And while Enron's growth and subsequent collapse were chiefly due to an intentional scheme of fraudulent accounting practices designed and perpetrated by the company's

20. James Heyman and Dan Ariely, "Effort for Payment: A Tale of Two Markets," *Psychological Science* 15, no. 11 (2004): 787–93. Also see Tim Kasser, *The High Price of Materialism* (Cambridge, MA: MIT Press, 2003), for an account of the two basic types of motivation: intrinsic and extrinsic. People motivated by intrinsic values (e.g., the common good) tend to be happier, healthier, and less insecure than people motivated by extrinsic values (money or prestige).

executive officers, the fraud would not have been nearly as successful for so long without the widespread cultivation of a corporate culture that managed to deceive and manipulate investors, government regulators, politicians, employees, and the press.

Much has been made of the vast amount of intelligence that went into building the Enron empire. A best-selling book, *The Smartest Guys in the Room*, was even written about the scandal.[21] But being smart is not the same as being wise, and Enron's culture of deception and miscommunication undermined the very conditions in which wisdom—a genuine understanding of what is happening and why it is or is not important—thrives. Furthermore, Enron's corporate leaders had intentionally set up their hiring and promotion process based upon the misguided notion that people are effectively motivated by greed and fear:

> Enron followed [McKinsey & Company's] advice almost to the letter, setting up internal performance review committees. The members got together twice a year, and graded each person in their section on ten separate criteria, using a scale of one to five. The process was called "rank and yank." Those graded at the top of their unit received bonuses two-thirds higher than those in the next thirty per cent; those who ranked at the bottom received no bonuses and no extra stock options—and in some cases were pushed out.[22]

When a corporate culture is built on the basis of ignorance, greed, and fear, it not only allows for but actively cultivates moral disengagement. Is it any wonder such an organization fails?

Many people in leadership positions operate under the false assumption that a majority of people dislike work, and therefore one must use either sanctions (threats, punishments) or incentives (bonuses, rewards) or both to get them to do it. Social psychologist Douglas McGregor termed this notion "Theory X."[23] It is

21. Bethany McLean and Peter Elkind, *The Smartest Guys in the Room* (New York: Portfolio, 2004).

22. Malcolm Gladwell, "The Talent Myth," *New Yorker*, July 22, 2002, *http://www.newyorker.com/magazine/2002/07/22/the-talent-myth*.

23. *The Human Side of Enterprise* (New York: McGraw-Hill, 1960).

the basis for the "carrot and stick" approach to management. And while it may be true of some people, the fact is that most people like to work, provided that they find the work meaningful and the working conditions decent. McGregor termed this latter notion "Theory Y." He believed that people generally want to be treated with respect, to be given responsibility, and to be appreciated for the work they do.[24]

Peter F. Drucker argued that both theories have merit. Sometimes people have to be pushed or prodded to do their work competently and thoroughly, but most also want to achieve something worthwhile in the workplace. And so the wise leader, understanding that human motivation is complex, will acknowledge the need for a compliance framework (sanctions and incentives) on the one hand, and a culture of character (goodness and meaning) on the other. Both approaches are necessary.

Fortunately, there are many resources available on how to develop a compliance framework. Developing a culture of character is much harder, partly because less attention has been paid to how to do it well and it takes more patience and skill. In short, how can one get people in an organization to do what Charlayne, and Wayne, and the legal team at Toro did: to actively seek to be fully, morally engaged?

Communities of Character

Think about the last time you faced a significant ethical problem. Perhaps you observed questionable behavior on the part of someone with whom you work. Perhaps somebody falsely accused you of wrongdoing, and you had to decide how to respond. Perhaps you had to make a decision that would be technically against the rules but would be a considerable help to someone else. How did you figure out what to do?

If you are like most people, you talked to someone with experience and good judgment, someone who is a good listener. That is because most people seek advice from people they trust. This is

24. For a thorough discussion of Theories X and Y, see Peter F. Drucker, *Management: Tasks, Responsibilities, Practices* (New York: Harper & Row, 1973), 231–45.