

Ethics in Business

**A Summary of the Research Sponsored by
the Ethics in Business Research Fund**

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THE ETHICS IN BUSINESS RESEARCH FUND MANAGING TASK FORCE

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“The simple step of a simple courageous man is not to take part in the lie, not to support deceit. Let the lie come into the world, even dominate the world, but not through me.”

**--Alexander Solzhenitsyn,
quoted in Pitfalls of Practical Ethics**

Lessons From The Research

The Ethics in Business Research Fund was created, as its name suggests, to encourage researchers working in the field of Business Ethics. Over the last several years the teams we sponsored have produced a number of interesting, published articles, which we have, in turn, attempted to summarize in this booklet. Reading those papers (and this summary) suggests a number of take-away ideas, useful to the manager who, in addition to other duties, is responsible for the ethical tone of his or her organization. Here are a few of the take away ideas we noted as we reviewed the individual papers prepared by the research teams.

- Open communication between employees and managers, in both directions, and between all levels is the cornerstone of an ethical organization, because it helps people feel valued, as individuals. But also, an open line of communication is essential to ethically sound decisions --communicating values and sharing good and bad news gives people the perspective they need, to help them consider the implications of their decisions. The goal of open communications must be pursued vigorously and relentlessly: The benefits, in individual morale and better decisions, are worth the effort. .
- Manager’s actions communicate much more eloquently than their words, written or oral. Associates and employees will believe what they observe, whether or not those observations are consistent with what they read or hear.
- Every one of us benefit from having another person to talk with, when we encounter an ethical question. That conversation can be between associates or employees nearby, or over a hot line some distance away. That conversation, and the related decision will be richer if the other person has a different background and different perspective from our own.
- Having a company code of ethics is valuable, but only when that code is communicated consistently throughout the firm, and when the company’s actions are consistent with the code. In fact, a written code that is not supported by consistent company actions is worse than no code at all, because the hypocrisy of an ignored code breeds cynicism. An established code will need to be reviewed on a periodic basis, to be sure that it deals with the issues currently facing the employees. That renewed code will have more power if the employees are participants in the renewal effort.

- To make the code more effective, as a model, it must be baked into the culture of the firm, for example, by making annual bonuses contingent on an appraisal from peers and subordinates as to how well the employee carried out the company's ethical ideas.
- Regular, mountaintop, refresher courses on ethical decision making (and the company's code) will help all employees keep their perspective. Even the most careful managers can become focused on the day-to-day-trees and lose sight of the larger forest. Well designed refresher courses can help managers and employees stretch their imaginations and make more informed moral assessments. Cases and simulations are useful in preparing people for difficult issues that they are sure to face in their real world work.
- Framing and reframing issues through a series of cases can help people see the real complexity of a situation and think about more a complete resolution to a problem. How does one see a situation from his or her personal perspective? From the perspective of a company employee? From the perspective of a customer? A shareholder? A member of the community? Other "lenses" might include consideration of the physical environment, the social environment, the impact on precedent -- and the message that is likely to be sent by the decision.
- Training and staffing decisions should take advantage of the differences between the genders. Experience shows that men and women often frame a situation differently. Firm training programs – and experience on teams and task forces - should help female and male managers see how different people see issues, and learn to appreciate the value of those different perspectives.
- The structure of engagement teams and project task forces should include a designated outsider – a rotating position that would require the holder to speak for constituents outside the group. If the designated outsiders do their job well, they will help the group avoid the herd trap.
- A Company's ethical culture should be formally challenged and regularly evaluated, so as to anticipate problems before they become untreatable. Managers should be alert to pernicious attitudes including "its all just a game," "everybody's doing it," "we make our own rules," or "it makes no difference." Changing such an attitude, once entrenched, will be difficult but critical. Communication and leadership by example will be required.
- As part of that culture challenge, managers must be wary of unquestioning obedience, or unreflective escalation of commitment. As difficult as it may be to manage, the entire organization will benefit from a little constructive rebellion; in two-way communication, managers must make sure that there is room for disagreement.

Editors' Note

The research conducted by the teams, summarized here, was obviously done well before the Enron disaster struck in the fall of 2001. As we write this summary, it is still too soon to know just what the lessons from Enron will be. But even now, several things seem clear:

- *As Gary R. Weaver, Linda Klebe Trevino, and Philip L. Cochran conclude in their research, publishing an ethics code is not enough – the spirit of the code must be baked into the life of the firm. Enron had a company code and publicized it throughout the firm. But in retrospect it is clear that some senior executives flaunted the code for their own benefit. Ironically, it was reported that a copy of the Enron Code of conduct was offered for auction on eBay – still in its shrink-wrapped package.*
- *The actions of management speak volumes – people will believe what they see more readily than what they read or hear. Enron conducted a campaign to instill a set of values across the firm – the values of Respect, Integrity, Communication and Excellence (RICE). T-shirts with the “RICE” acronym were available at special events. But Enron was also a firm with a very harsh personnel policy, which the staffers referred to as “Rank and Yank.” All employees were ranked on a six level scale, according to their productivity, and the bottom tier was routinely discharged. It should be obvious that “Rank and Yank” communicated more clearly than “RICE” and it was the former policy that created the intensely competitive environment within the firm. It was “Rank and Yank” that drove behavior.*
- *Based on the information we have today, it appears that some Enron executives not only broke the accounting rules, but they also enriched themselves personally at the company’s expense. Those two facts are surely related. The behavior of those managers was inexcusably unethical, but senior management must bear some responsibility for the way those managers took advantage of a control loophole. A management that flaunts society’s rules – in this case the accounting rules – tells its employees that there are no rules except the proverbial “every man for himself.” In a very real sense, Enron management reaped what it sowed.*
- *The Enron situation seems to bear out the value of a regular Ethical Audit. As we observed earlier, a culture in which people believe that “it’s all just a game” feeds on itself and must be nipped in the bud before it becomes pervasive.*

Introduction to the Research Program

In the late 1990s, two accounting organizations resolved a grievance by agreeing to fund research into “Business Ethics.” In turn, the people selected to manage those funds agreed to solicit research proposals from academics and other interested parties: the request for proposal asked the research teams to publish the results of their research in peer reviewed journals, and to make copies of those articles available for a summary. Some of that research effort was very productive; but, as so often happens in a research program, other parts of the effort were less successful. The successful work provides wonderfully interesting, thought provoking reading – that work is summarized here. The study of business ethics - or applied ethics - is really a study of human kind.

Why do “good” people make “bad” choices? What are the external factors that affect an individual’s decision-making, and what are the more subtle personal factors? How might our decisions be influenced by our gender, or our level within our firm? What are the roles of trust and independence in auditing and accounting? What factors affect the level of skepticism in the auditing process? What are the benefits and limitations of professional codes of conduct? Why do corporations introduce formal ethics programs and how effective are they? What factors contribute to well-integrated processes in these formal ethics programs and what cause them to be “de-coupled” from normal, ongoing life?

The research, and the resulting articles and presentations in this collection address these questions, along with many other ethical issues confronting business people, management, auditors, accountants, and lay people. Although an accounting-oriented group sponsored the research projects, this material deals not merely with the role of auditors and accountants, but with the nature of ethics and ethical decision-making, the role of the corporation, and the resolution of moral dilemmas of all sizes and hues. The Big Five firms appear, but in addition there is a dissection of the well-known PTL scandal, a look at Edwin Meese’s ethical foibles, a discussion of fuel-levels on a United Airlines flight, and study of formal ethics programs and policies in American corporations.

As we might have expected, most of the writers draw on well-known studies, theories and philosophies to illustrate their points: the Stanley Milgram project and its implications for business ethics; Kohlberg’s (and Piaget’s) model of moral reasoning; Kee & Knox’s 1970 model of trust and suspicion; 17th century philosopher John Locke’s assertion that the laws of man had developed into a complex artifice; Robert Veatch’s “triple contract theory”; John Stuart Mill’s skepticism about finding definite answers to moral problems; Argyric’s Double Loop Learning theory; and Manuel Velasquez’s reducibility approach to the corporation and moral responsibility.

The research teams produced basic papers reporting on their work, including articles published in the Academy of Management Journal, Behavioral Research in Accounting, Business Horizons and the Journal of Business Ethics. Some of the research projects were the source material for speeches and seminars given by one or more of the

researchers. A bibliography of the published papers resulting from these research projects is outlined in the attached appendix.

Kevin Gibson and Sara Goering

The most prolific contributor to this collection is Kevin Gibson, who, with his collaborator Sara Goering, wrote a four-volume study, “Pitfalls in Practical Ethics: A Study of Unintended Moral Failures,” which was the basis for a number of presentations and published articles in the Journal of Business Ethics, Current Topics in Management, and Benchmarks: A Newsletter on Applied Ethics in the Business Environment.

Pitfalls in Practical Ethics: A Study of Unintended Moral Failure-- Summary

In these volumes, Gibson and Goering are not concerned with the “real villains”—those businesspeople who deliberately steal or bilk or cause harm to others. Although they touch on high profile scandals, their focus is the ordinary individual and the dynamics of how that person might end up acting in an immoral or improper manner. In other words, their concern is with “moral people who usually know the difference between right and wrong, but fail to act in accordance with [their] conscience...” The ethical failure of a professional in a particular instance does not necessarily mean that person is immoral; the failure may however illustrate personal weaknesses that need institutional support.

Nor do Gibson and Goering deal only with business issues. They outline a number of scenarios—real, literary and imagined—in which a variety of improprieties occur. In the appendix, they start with the big, egregious incidents such as the PTL scandal and Ed Meese’s moral, if not legal failings, but work their way through more complex but low profile situations, including the case of a whistleblower, the client/attorney relationship, and most interestingly, a passage from Remains of the Day in which the butler must come to terms with having served a Nazi sympathizer. By including smaller and some fictional dilemmas, the authors peel away the complex layers of moral behavior and show the difficulties confronting the “everyman,” not just the chief executive.

By giving different scenarios and by including, in each section, possible remedies or ways to avoid bad ethical decisions, the authors have written a very useful set of papers – almost a handbook - that will help people think more incisively and efficiently about moral choices. With several of these scenarios, Gibson and Goering throw the consideration of ethical and moral behavior into different arenas, forcing the reader to think not just of financial matters, but also of ethical considerations in general.

The Theoretical Backdrop to Ethical Decisions

In this introduction to the study, the authors give an overview of several theoretical approaches to ethics studies, and their appropriateness in various situations. They examine whether attitudes towards morality are counter-productive; are we wedded to a particular way, perhaps rigidly, of seeing things morally? Do a person’s “bad” actions result from such a constricted view? But on the other hand, a totally situational attitude toward morality leads to inconsistency and from the hip decisions. Gibson and Goering acknowledge that these are complex issues, with no easy answer. “While it would be nice

to have a moral algorithm where we punch in our problem, press a metaphorical button and get an answer, present theory is unlikely to give us such simple solutions.” Still we each face ethical problems on a regular basis, and we do need to struggle to find solutions. It will be helpful to understand the ways different thinkers have approached ethics, and internalize those ideas – as different as they are.

What is the nature of the moral project? We readily acknowledge that Mother Theresa is a moral person, but morality is not “the preserve of saints and heroes” and thus a mere aesthetic for the rest of us. Gibson and Goering examine the difference between decisions with value content and moral implications and those without. What is the nature of virtues, for example, those set out in the AICPA Code of Professional Conduct? What is the nature of integrity, and how does it square with Kohlberg’s analysis of the development of moral reasoning, which suggests that people have different ranges and capacities for moral thinking. The authors outline the traditional moral theories – most particularly Utilitarianism (the cost and benefits of outcomes) and Deontology (the Universal Rule). They look at situations from two opposite camps—absolutists and relativists, and examine the two approaches to making moral decisions: the dispositional view and the “levels of reasoning approach.”

- Utilitarianism says that decisions should be directed to provide the most benefit to the greatest number of people, with harm to none. 19th century philosopher John Stuart Mill, Utilitarianism’s strongest advocate, wrote that “the creed which accepts as the foundation of morals, utility or the greatest happiness principle, holds that actions are right in proportion as they tend to promote happiness, wrong as they tend to produce the reverse of happiness. By happiness is meant intended pleasure and the absence of pain; by unhappiness, pain and the privation of pleasure.” (*Utilitarianism*, ii, 1863). Most of us are utilitarian, at least at first blush, because we naturally focus on outcomes. But when pushed, we waffle: we agree that sometimes a lie is acceptable, where it seems to provide a benefit, but we are uncomfortable with the logical extension that lying is always acceptable. More importantly, applying Utilitarian thinking is difficult, because it requires that we look far afield – and exercise great personal judgment – as we consider who benefits and who is hurt by our decision.
- Deontology (or Universalism) is the idea that any decision we make today would be acceptable to everyone who had the same facts. The primary advocate for deontology was 18th century philosopher Immanuel Kant who argued that an action is morally right only if the actor is motivated by “good will.” Universalism looks less at outcomes and more at the process by which a decision is made. Interestingly, accountants tend to be Universalists, because they are used to dealing with rules. There is a certain logic to Universalist thinking (it is the basis of western constitutional government) but its logical basis can be de-humanizing

Institutional and Organizational Factors Affecting Ethical Decisions

This section of the Gibson/Goering study deals external factors, primarily in the workplace, that affect the ethical decision-making. Corporate culture and organizational norms and values certainly influence people's behavior. A new hire at IBM or Dell, for example, is not only likely to dress like others in the company, but will to some extent take on the values and attitudes of the big company, consciously or not. Stepping into a new position or role can lead one to assume new values inherent in that role. Think of the enormous implications that fact has for the leaders of those companies.

From our personal perspective, it is important to ask how individuals can maintain their own moral autonomy in the face of the overall pressures exerted by the larger institutional setting? The fact that a group assumes responsibility does not relieve the individuals in the group from their personal responsibility.

In that context, the authors examine role morality versus "common" morality. As individuals we each have a moral obligation, and we have an obligation to exercise that individual sense in the various roles we play, CEO, employee, father, mother, and so forth. But, interestingly, the role we play in society may carry a further obligation, in addition to our personal moral duty. And for some, that role morality is vitally important, because of the power the role carries. Himmler's actions as a leader in Nazi Germany were immoral, yet he was a churchgoer and dedicated family man. On another level, the Pinto designers knew of the car's problems but were able to divorce themselves from the implications because they were "just doing their job." In some professions, the role requirements are never "off duty." For example, a doctor who sees an ailing passerby will probably come to the rescue; on the other hand, a teacher has no obligation to correct that passerby's grammar.

In a particularly vivid example of role morality versus common morality, the Gibson and Goering refer to a murder case in Lake Pleasant, New York. In this situation, the defendant's attorneys knew about and had seen the hidden bodies of the man's other victims. Yet they refused to divulge this information because of their perceptions of their duties as attorneys and the client/attorney privilege. Although castigated and reviled by the public for their actions, the attorneys nonetheless felt they had a professional obligation to their client. They believed that they were upholding the morality of their role and not giving into the common morality that would dictate they reveal information to the grieving family and friends.

Building on that case study, the authors show why codes are not always sufficient guides to professional conduct. Despite the value of codes of conduct—they establish a threshold level of professional competence, give standards of reasonable performance, establish an ideal, and give guidance to the considerations that should come into play in decision-making—slavish adherence may be detrimental. While codes may provide a good set of behavioral guidelines, they almost always have to be generalized and thus often don't provide personal solutions to difficult dilemmas. In addition, there is the danger of

interpreting codes in such a way that one might do wrong in the name of adapting one's behavior to the demands of a code. For example, before passage of the Civil Rights Act of 1964, segregation was legal. Moral, no, but excluding African-Americans was correct, according to the code of law. In short, Gibson and Goering argue, "We should not confuse the ethics of a profession [or the ethical requirements imposed on a professional] with its written Code of Professional Conduct."

The authors devote a large section of "Pitfalls in Practical Ethics" to an analysis of the institutional dynamics that can contribute to professionals unintentionally doing wrong. They discuss the concept of groupthink and the "everyone's doing it" phenomenon and the problem of whistle blowing.

- *Groupthink*

Being a team player is considered praiseworthy in corporate America. But at what point does teamwork slide into "groupthink," where people unconsciously submit to authority without considering the moral dimensions of their behavior? If the individual has subsumed him or herself into the team's task, often that person loses sight of whether the ultimate goal or behavior is correct. A ready example is the Challenger disaster where, with the pressure to get the shuttle into space, many of the team members acquiesced to decisions to which they ordinarily would have objected. An even more bizarre example is Jonestown where, caught up in the leader's paranoid frenzy, hundreds of people drank laced Kool-Aid and died.

However, borrowing from Janis and Mann's Decision Making: A Psychological Analysis of Conflict, Choice and Commitment, Gibson and Goering lay out a set of potential procedures to minimize the negative effects of groupthink.

For example, a group's leader should assign the role of critical evaluation to every member of the group. The leader should also avoid stating preferences and instead remain (or appear to be) impartial. Helpful too is assigning the devil's advocate role to at least one person in the group, and bringing in outside experts to challenge the group.

Suggestions for the organization as a whole include minimizing the importance of a "strong" culture, while exploring methods to ensure greater diversity and dissent (through a grievance or complaint mechanism or internal review). The leader can have different groups of individuals study the same issue and, assuming a culture of free speech, challenge the conclusion posited. Ultimately, it will be helpful to ensure that all employees receive internal ethics training.

Individuals can help avoid the detrimental and often seductive lure of groupthink by becoming more critical thinkers. Team members should be encouraged to take time away, to be reflective, and perhaps to discuss the group's deliberations with a trusted outsider. There might be a time set aside for group reflection and discussion of "How are we doing?"

- *“Everyone’s doing it” and “It makes no difference”*

There are many catch phrases people use to morally justify what might be an immoral action. “Everyone’s doing it,” or, “when in Rome, do as the Romans.” But what if the Romans “do” immoral things? “That’s just the way they operate here,” an American businessperson based in a foreign country might say about the practice of bribery or corruption. “It makes no difference,” some people might claim about their actions, because the overwhelming population is doing the same thing, be it watering the lawn during a drought or stealing office supplies. “If I didn’t do it, someone else would,” a scientist who makes bombs or anti-personnel mines might reason. “I was just doing my job,” say the many people interviewed in *Shoah*, a nine-hour documentary about the Holocaust.

Gibson and Goering argue that walking people through different case studies and having them frame dilemmas in various ways and from different perspectives will help undermine these two explanations for unethical behavior.

- *The Dilemma of Whistle blowing*

The authors examine the dilemma of whistle blowing, or the decision facing someone who has conflicting loyalties – apparent loyalties to the organization and to his or her conscience. To illustrate the dilemma, a section in the appendix deals with quality control inspector Charles Atchison who exposed safety violations at the Comanche Peak nuclear plant in Glen Rose, Texas. His actions delayed the utility from obtaining a license and prompted indefinite repair work.

As a result of speaking out, Atchison lost his job and fell into debt. Several times, he landed jobs at other companies only to be fired when managers discovered his role in Comanche Peak. One boss called him a “troublemaker,” and Atchison was effectively blacklisted. He lost his house, resorted to selling beer cans for scrap, and was forced to move his family into a trailer.

Evidence affirms that a whistleblower’s life after the incident can be a nightmare. Morton Thiokol’s engineers Allan McDonald and Roger Boisjoly were transferred to menial jobs after testifying about serious problems with the Challenger. Karen Silkwood lost her life when she revealed flawed safety procedures at Kerr-McGee. And Ernest Fitzgerald, the Air Force cost analyst who testified about huge cost overruns on a Lockheed cargo plane in 1969, was ousted from the service and spent thirteen years in court before reinstatement. Although a folk hero of sorts, Fitzgerald says that whistle blowing is akin to “setting your hair on fire publicly,” and says that in hindsight, he wouldn’t have fought for reinstatement but simply switched jobs.

But the act of whistle blowing is not always high profile. Many employees deal with the dilemma of whether to report a wrong act. Part of the difficulty is that, from childhood, we’re indoctrinated in the idea that it’s wrong to tell on

somebody else. We internalize this societal view and often become “loyal” for the wrong reason: not wanting to “snitch.” There are different levels of blowing the whistle. Some might report an incident of sexual harassment in the workplace and feel their job is done. Others might not rest if there is no company response to the allegations. Still others might not be satisfied until the accused is revealed and punished.

Over the years, laws have been enacted to protect the whistleblower. Part of the 1978 Civil Service Reform Act was designed to shield federal workers disclosing wasteful, illegal and corrupt activities. The 1989 Whistle-Blower Protection Act streamlined the Office of General Counsel and the Merit System Protection Board with regard to procedures for whistle-blowers. And in 1981 the State of Michigan enacted the Whistle-Blowers Protection Act to protect those who spoke out against retaliation.

The benefits to the government, of those whistle-blower protection laws, seem obvious to those of us who are taxpayers. And perhaps those laws are necessary in a governmental setting because of the typical bureaucratic structure that develops in governmental agencies. But there are equally important reasons why whistle-blower protection might be important in a business setting. The pressures inherent in a commercial setting tempt individual line managers to take risks that the company as a whole would not agree to take. And, research shows that temptation rises exponentially with the distance between the individual and the home office. To provide a check-and-balance against the pressures of the market place, a company is well advised to have a system in place that protects and even encourages appropriate whistle blowing. It is sometimes a fine line between backstabbing and whistle-blowing, but with the right set of values in place, and the right protections in place, everyone benefits when employees are encouraged to speak their mind about the direction being taken by a unit, by a division, or by the company.

Nonetheless, figures from 1991 paint a glum picture of the effects of whistle blowing. 90% of whistle-blowers lost their jobs or were demoted. 26% sought psychiatric and medical care. 15% divorced after the incident. 10% attempted suicide. And 8% went bankrupt.

Gibson and Goering outline three potential solutions for companies to use in promoting legitimate whistle blowing:

1. Train employees to know their rights, the procedures for reporting questionable practices, and which of these practices the company feels justified in pursuing.
2. Ensure that there is comprehensive legal protection for good faith whistleblowers. Putting adequate protections (or even rewards) in place within the company encourages appropriate whistle blowing.

3. Organizational restructuring of reporting channels within a company so that the immediate supervisor does not hastily dismiss the initial complaint. Also, appointing an ombudsman to deal with complaints and investigate potential wrongdoing helps by establishing direct avenues for impartial consideration of the problem.

Communication as a Factor

Some ethical problems, Gibson and Goering argue, are the result of poor communication. There are three different types of communication problems that can have moral implications.

1. There is *ambiguous intent*, for one. Frustrated by the unruly Thomas Becket, Henry II screamed out, rhetorically, “Will no-one rid me of that turbulent priest?” Followers who overheard took the king’s words as an order and murdered Becket in Canterbury Cathedral.
2. A second problem is *miscommunication*. An Air New Zealand DC-10 crashed in Antarctica after a pilot told the operations manager that the plane was off course. The operations manager, through the navigations manager, determined the correct course, but no-one told the plane’s captain. The result of this informal, word-of-mouth communication was that all on board, 257 people, died in the crash.
3. Finally, there is the *euphemism*, a word that gives a positive slant to an otherwise negative thing or action. Some euphemisms are morally acceptable. Saying that someone “passed away” rather than died, for example. But immoral actions often hide beneath other euphemisms. “Neutralize” for kill. “Entry device” for bomb. “Credibility gap” for government lying. In short, euphemisms are often a method of avoiding the morality of one’s actions.

In a series of exercises listed in the “Pitfalls” appendix, Gibson and Goering propose various techniques to improve communication. They list four elements of effective listening:

1. Focus on content, not delivery,
2. Keep an open mind,
3. Delay evaluation (which can preclude effective listening),
4. And minimize inner speech (the thoughts going through a listener’s mind which again, interferes with one’s ability to listen).

Gibson and Goering also suggest specific techniques to improve communication. These include restatement, or feeding a message’s content back to the speaker with different words. For example, the speaker will say “The copiers are to be depreciated over

three years,” and the listener will respond, “You think they should be treated as a three year deduction, then.” Other techniques include paraphrasing, or having the listener restate the content back to the speaker using different words with the same meaning as the original statement (“Get it to me by Friday” is answered with “You’d like it by the end of the week.”). There is also active listening, in which the listener interprets the emotional content of a message (“They didn’t even bother to listen to my proposal” is met with “It sounds as though you felt you weren’t respected”). Other techniques include summarization, in which the listener condenses the message and asks for verification; expansion, where the listener elaborates on the message and asks the speaker if the expanded message is correct; and ordering, in which the listener helps the speaker put the message in some sort of sequence. Gibson and Goering’s example for the latter is:

Speaker: We have to get the office cleaned, the final ledger in order, make sure the copier has been serviced, think about the Christmas party, find the article that Johnson asked for, and then on top of it all we have to deal with someone coming in from the head office.

Listener: It seems you’ve got a lot on your plate. Correct me if I’m wrong, but my guess is that unless the final ledger has been reconciled then you won’t be able to concentrate on any of the other stuff.

Variations of “ordering” are techniques such as grouping, where the listener helps a speaker identify common ideas or issues and combine them into logical units. (After the Speaker says the above, the Listener responds, “Sounds like you’re feeling overwhelmed right now. If I’m right, it sounds as though you have two main areas of concern: one is making sure that your assignments are completed on time, and the other is the ‘housekeeping’ of the office.”) Similar techniques are structuring, in which the listener helps the speaker put his or her thoughts into a coherent message; separation, where the listener breaks up the message into smaller components; generalization, where the listener identifies general points or principles in a speaker’s presentation; and questions of clarification, where the speaker is encouraged to give further information.

Hidden Factors Affecting Individual Ethical Decisions

Framing

By “hidden,” the authors mean internal or psychological factors that are subtler than external factors. The authors look at factors that lead people under stress to behave a certain way, possibly to revert to well-entrenched behavior. “Framing,” for example; our perception is inevitably colored by the frame through which we see a situation or behavior. For example, there are X number of Medicaid dollars available. There are two mutually

exclusive possibilities: one person can receive dialysis for a month, or fifty people can receive a screening for kidney problems. Because humans tend to be utilitarian and want to save as many people as possible, most would opt to screen the fifty people.

However, the authors have us frame the situation differently. **You** made the decision to ignore the dialysis patient and screen the fifty. Now **you** are responsible for telling the patient what you've decided. In addition, **you** are the one who will actually disconnect the dialysis machine while the patient watches. With the moral screws tightening in this fashion, many people, despite their utilitarian bent, would perceive the situation differently and perhaps make a different decision. Jonathan Baron at the University of Pennsylvania conducted similar research, where subjects were asked to decide policy about both AIDS patients and children's vaccinations. Though most people wanted to help the most patients and children, when the situation was framed in different ways, a simple decision became difficult. Two things emerged from these tests: First, people are sensitive to group differences and try to equalize the differences between groups. Second, people do not want to be seen as agents of harm. Often those personal, internal objectives are in conflict; it is important that we recognize that conflict and bring it out into the open.

The Halo Effect

When we interact with other people, we almost always evaluate them. In doing so, we think we evaluate using empirical objective data that quantify productivity, effort, efficiency, and integrity. However inevitably other factors come into the evaluation process without our realizing it. This is termed the "halo effect."

An example. If we meet someone and really like the person because he or she has a great sense of humor, that influences us to judge favorably the person's other aspects: appearance, intelligence and personality. For us, that person wears a figurative halo. The psychological root is the human desire for cognitive consistency rather than cognitive dissonance. Humans want a package deal when it comes to positive—or negative—judgments about another person. In another example, we might find a friend who, on every level, is very kind. Without knowing anything about his or her political preferences, we assume that we would approve of their politics.

Physical beauty is a major factor in the halo effect. When someone is attractive, we assume they are also intelligent, talented, and successful. On the other hand, we assume that the pen pal we've never met who writes beautiful prose or poetry must be physically attractive (an assumption often shattered upon meeting). This halo effect comes into play constantly: in hiring and firing, review and evaluation, and extension or withholding of trust. We all need to be conscious of the implications of the halo effect on our ethical decisions, and do our best to rise above it.

Egocentric Bias and the Escalation of Commitment

The authors also discuss the potential detrimental effects of the egocentric bias, and the escalation of commitment. Sometimes, we stay in the game when we should cut out losses and bail out. In a pedestrian example, we might be watching an uninteresting television movie. Although we know we should turn off the set, the movie is halfway through so we keep watching to the end. Or, in making a long-distance call, we're put on hold. Rather than hang up, we stay on the line, thinking that every passing minute brings a better chance that someone will get back on the line.

A more egregious example involves B.F. Goodrich's malfunctioning aircraft brake. Although it became obvious that the brake would not work, the manufacturer sunk more time and more money into it. After all, they couldn't abandon the time and money already spent. In desperation, B.F. Goodrich managers instituted a cover-up that involved faking the test data, and the test plane eventually crashed.

Examples and Techniques

Gibson and Goering wrap up their theoretical discussion with an appendix that includes a number of materials: examples of ethical dilemmas and bad moral behavior, dissection of several high profile scandals, and prescriptions for ways to "walk the walk" and "talk the talk" ethically and morally. Also included are various techniques and possible solutions, as mentioned above, to help expand one's way of thinking about ethical and moral dilemmas.

Beyond Pitfalls in Practical Ethics

Gibson draws on the material in their mammoth "Pitfalls in Practical Ethics" study for several other essays. In "Fictitious Persons and Real Responsibilities," Gibson argues that corporations should be held responsible for their actions; in effect, he disagrees with Manuel Velasquez' arguments in "Why Corporations Are Not Morally Responsible for Anything They Do." Using a framework based on tort law, Gibson writes that "corporations can be held responsible for the harm caused by their activities even if no person or persons in their decision making structure had formed malicious intent, since the sheer fact that the corporate environment encouraged or allowed negligence will be sufficient." He cites the Ford Motor Company and its Pinto scandal, as well as National Semiconductor, charged in 1984 with inadequate testing of their supplies for the Defense Department. The issue, writes Gibson, is "corporate personhood." Rather than arguing from a criminal model, where liability is based on intent and awareness, Gibson argues for a tort model where culpability is not tied to intent. Gibson gives the example of a man deliberately running over a pedestrian; intent is obviously there. However, should the man carelessly leave off the parking brake and the car rolls over the pedestrian, there is no intent. There is violation of "care of duty" however. Taking the tortious approach, Gibson says, allows for a moral yardstick: a "reasonable corporation" not dis-similar to a "reasonable person."

In “Role Morality and Individual Moral Responsibility in Accounting,” Gibson discusses the increasing emphasis on ethics training in the accounting profession. During the Savings and Loan debacle and the PTL scandal of the 1980s, for example, the public became aware that auditing standards were not as demanding as widely assumed. Gibson argues that the auditors responsible for the Savings & Loan debacle and the PTL collapse failed to meet the expectations the public held for this profession, and therefore were guilty of ethical failure.

Again, Gibson makes the point that simply relying on the law—or a set of professional codes—is not always adequate. “Legal acts are sometimes immoral,” he writes, “and moral acts sometimes illegal.” As he did in “Pitfalls to Practical Ethics,” Gibson discusses role morality versus common morality.

Professions come with their different sets of powers. A police officer has the right to stop and arrest someone; an ordinary citizen such as a bank manager does not. Drawing on Mayer’s 1987 study, Gibson outlines the powers associated with professions, including that of accounting. These include formal authority (that of a formal position), expert/information power (expertise on a certain matter), associational power (derived from association with others), procedural power (control over procedures, if not the resulting decisions), coercive power (being able to cause discomfort to others, if not impose sanctions), moral power (an appeal to widely held values), and personal power (the personal attributes such as self-confidence and endurance that magnify other sources of power).

Michael Shaub and Janice Lawrence

In their various articles and presentations, Michael Shaub and Janice Lawrence examine factors influencing different levels of professional skepticism in the auditing process: ethical orientation and ethical reasoning, career level and experience, gender, and seniority. In their research, the authors tested and questioned a number of auditors at the then Big Six firms.

Independence and Skepticism

Independence is considered a benchmark in accounting. The insistence on independence in the auditing process espoused in the AICPA's "Code of Professional Conduct" was affirmed in the 1984 United States vs. Arthur Young & Co. Supreme Court decision. In his ruling, Chief Justice Warren Burger wrote that the role of the accountant demands that "[he or she] maintain total independence from the client at all times." But independence can be compromised by a number of different factors including experience (or lack thereof), personal relationships, the profession's code of ethics, situational and personal differences, among many others. In its essence, independence means a state of mind, which enables an individual to question everything, to maintain a healthy skepticism.

When we read a company's financial statement, we assume that it is reasonably correct, that the facts and figures haven't been compromised. But there are tremendous pressures pushing on the management people who prepare these statements. Hence the importance of auditors and their use of professional skepticism in restraining any self-interested behavior on the part of their client. Skepticism is a natural part of the audit process; skepticism is not cynicism, but it does mean being willing to doubt, question or disagree with a client's assertions or conclusions. Skepticism might require designing additional tests, asking further questions, or confronting the client directly.

In *Ethics, Experience and Professional Skepticism: A Situational Analysis*, published in *Behavioral Research in Accounting*, Shaub and Lawrence examine different levels of skepticism in auditors. They develop a model of auditors' professional skepticism by adopting the 1970 Kee and Knox model of trust and suspicion, then applying this model to auditors. In the 1970 model, "trust or its complement, suspicion, is a function of an individual's perception of another's motives and/or competence." In developing their model, Shaub and Lawrence examine three key areas by which to measure skepticism: ethical dispositional factors, experience, and situational factors.

There are many threats to skepticism in the auditing process. A close personal friendship between auditor and client, for example, may detract from the necessary level of skepticism. Or perhaps the client has been the source of a number of referrals for the auditor. The duration of the audit relationship may make a difference. If it's a one-time, short-lived audit, for example, then the auditor is less familiar with the client and the client's history. The audit team may be less familiar with the client's business, but on the

other hand they may be less involved personally and therefore more inclined to be more skeptical. Studies have shown that, in general, women are more trusted than men. Thus, if the client is female, skepticism again could be compromised. In the case of an important and large client, intimidation can be present; prior studies have shown that even senior auditors face client intimidation in some circumstances, thus reducing their objectivity and the effectiveness of the audit.

Are Female Auditors More Skeptical Than Their Male Counterparts?

In the 1990s, the traditionally male-heavy accounting field underwent a sea change; 50% of accountants were now women. Few, if any studies focused on the role of gender in the ethics of accounting and auditing. With the increase in female employees, accounting firms also became amenable to non-traditional career tracks and work schedules. Allowances were made for maternity and family leave.

Shaub and Lawrence examine this shift in gender demographics, and the interplay between gender and years of experience in the profession. In one study, they tested three measures of ethics, in the context of gender and experience. The complexity of this study demonstrated the risks we take when we use only one measure of ethical prowess – individuals are too complicated for any single measure.

For example, some prior studies have suggested that the culture of audit firms weeds out people who practice high-level ethical reasoning, with the result that the partner groups are uniformly conventional reasoners. But the Shaub/Lawrence study concludes that it is more likely that the weeding out process discourages ethical relativists or situational ethicists, in favor of people who think in more structured terms, and who have a high regard for the professions ethical code. The authors conclude: “There probably ought to be certain measure of comfort in audit partners’ adoption of society’s point of view [as expressed in the professions’ code] particularly in light of their role in overseeing and providing the final review of the audit.”

Similarly, it has been suggested that female auditors reasoned at a higher level than their male counterparts. This study supports that notion, but concludes that the result is mostly due to the males transitioning, as they progress through the firm, from a situational thinkers to principled thinkers – consistent with the conclusion regarding the partner’s practices, as noted earlier. Women auditors retained their high level reasoning as well as their focus on relative and situational thinking, from the beginning of their career through their various promotions. Interestingly, there were no female partners in the study sample.

The authors conclude that a firm needs all kinds of thinkers, saying, “Based on the results of this study, [staffers] (and particularly female managers) may strategically provide an alternative ethical perspective to partners.” And of course, that quote suggests that partners are well advised to seek out and consider those “alternative ethical perspectives.” It also suggests that firms would be well advised to consider the staffing of important audit engagements, with an eye for “strategically” varied ethical perspectives.

The Senior Skepticism Surprise

In another study, Shaub and Lawrence look at the difference levels of skepticism across levels in a firm. One might assume that the greater the experience, the more skeptical and objective the auditor is. On the contrary, Shaub and Lawrence's research, again conducted at the Big Six firms, revealed that staff level auditors demonstrate significantly higher levels of professional skepticism in the auditing process than do their superiors. The authors report two conclusions from their study: "Professional skepticism is different at different career levels. Professional skepticism appears to be high initially, to translate into action less at the senior level, and to level off and become relatively constant at the manager and partner levels. Managers and partners are capable of acting strategically in that both audit risk and market forces appear to influence their decisions." (emphasis supplied) Shaub and Lawrence also conclude, "... auditors at different career levels differ in their sensitivity to situations that require greater professional skepticism." Again, skepticism is quite high among new staff, but seems to be mitigated somewhat by market forces at the manager and partner level. Perhaps the most interesting finding is that managers and partners' skepticism is influenced by the importance of the client to the firm. Going beyond the need to remind professionals of their duty, the authors suggest that firms be careful in their socialization process, so there is room in their organization for different kinds of thinkers.

Gary R. Weaver, Linda Klebe Trevino & Philip L. Cochran

Formal Corporate Ethics Programs, Practices and Policies in the Mid-1990s

In a series of journal articles, Weaver, Trevino and Cochran examine the formal corporate ethics programs American businesses began adopting in the mid-1990s. Researching both Fortune 500 and Fortune 1000 companies via surveys, questionnaires and on-site visits, the authors profiled and examined the effectiveness of the various programs. While many American corporations have adopted formal ethics policies, they vary widely in seriousness and implementation of the policies. Some companies' ethics policies, while not mere window-dressing, may nonetheless be lower-cost and primarily symbolic. Other companies take these policies and their role in business much more seriously.

In the late 20th century, society began to expect businesses to foster corporate ethics. However, Weaver and the others conclude that just because the institution of corporate ethics programs is now more common there is no guarantee that they are effective. On the other hand, the lack of a formal ethics policy doesn't mean that such a firm is acting unethically. There are other organizational processes aside from a formal program that can foster good ethics. Assessing the business ethics of any company, Weaver concludes, involves examining both formal and informal aspects of the company.

Adopting an ethics policy is a relatively new phenomenon, a corporate practice of only the last twenty years. Studies of business ethics only began appearing in the 1980s, such as the Center for Business Ethics studies of 1986 and 1992. With their various articles, Weaver and his fellow researchers attempt to provide a "snapshot of the 'state of the art' in formalized corporate ethics function."

In their essay "Corporate Ethics Practices in the Mid-1990's: An Empirical Study of the Fortune 1000," published in the Journal of Business Ethics, the scholars highlighted eight aspects of formalized corporate ethics activity.

1. Ethics-oriented policy statements
2. Formalization of management responsibilities for ethics
3. Free-standing ethics offices
4. Ethics and compliance telephone reporting/advice systems
5. Top management and departmental involvement in ethics activities
6. Use of ethics training and other ethics awareness activities
7. Investigatory functions
8. Evaluation of ethics program activities

Weaver's group discovered that although there was a high degree of corporate adoption of ethics policies, there was a wide variability in the extent to which these policies are implemented. The majority of firms have committed to the lower cost, possibly more symbolic side of ethics activities, primarily the mere institution of ethics policies and

codes. In addition, many firms rely on preexisting corporate structures or processes to put these policies into effect, relegating the policies to mere symbolism.

From their research, Weaver's group came to a number of conclusions about what strengthens a company's ethical practices and policies.

1. Ongoing ethics policy revision. Ethics policies may be actively attended to, marginalized, or even ignored. One indication of active attention to these policies and their importance is how routinely they are internally scrutinized and/or revised.
2. A requirement that employees acknowledge both receipt of the company policy or code and their compliance with it. Merely distributing the code does not guarantee that an employee reads—or even pays attention to—the outlined policies.
3. Insure managerial responsibility for implementing and supporting an ethics policy. In other words, make sure there is a manager (or managers) whose responsibility within the company is focused on ethics program activities.
4. Corporate-level and external ethics evaluations. Firms may use various methods to evaluate the achievements or failures of their ethics-oriented activities, structures and personnel. Willingness to resort to external evaluation is a good indication that ethics programs are not a purely symbolic, decoupled feature of the organization.
5. Standardized procedures for dealing with ethics-related problems. Introducing an ethics program not only can impose behavioral expectations on employees, but can also raise the expectations that employees have of their company.
6. Telephone reporting and advice systems. Some firms have adopted a telephone-based system whereby employees can raise ethics and compliance complaints and queries. The nature of these systems is important. Some are oriented toward controlling or regulating employee behavior in order to comply, for example, with legal requirements. The more successful programs, the researchers discovered, were those with an emphasis on encouraging employees to embody particularly values in their own decision making, or those that offered help and assistance to callers grappling with the complexity of a decision.
7. Top management involvement. The involvement of top management in and commitment to ethics program effectiveness is essential in creating a company wide respect for and adherence to an ethics policy. In a similar vein, it is important that the CEO communicate about ethics programs regularly and frequently to employees throughout a company. Whether it's company-wide communications or live (and taped) ethics-oriented messages, it is important that employees hear the message from the top officer.
8. Ethics training and education. Although more and more companies have adopted ethics codes or policies in the 1980s and 1990s, these policies can remain ineffective if they are merely formal documents with occasional written follow-ups. To ensure higher compliance, employees should receive regular, structured training in ethical dilemmas. It is important that this training not be

merely written tests or quizzes, but workshops or seminars in which employees interact with others in working through the complexities of various ethical dilemmas.

In another article, “Integrated and Decoupled Corporate Social Performance: Management Commitments, External Pressures, and Corporate Ethics Practices,” published in *Academy of Management Journal*, Weaver and his fellow scholars discuss the multiple pressures on companies to operate in a socially responsible fashion. These pressures are both external (government requirements, media scrutiny) and internal (the commitment of key managers within the company). Formal ethics programs in corporations can either be fully integrated or “decoupled” from general business practices.

Again, the extent of integration or decoupling within a company varies greatly. Even in companies with a formalized ethics code and extensive processes—ethics office and ethics-dedicated telephone lines, among others—decoupling can occur. The researchers visited one major financial services firm where they discovered that a group of 25 middle managers, responsible for ethics and legal compliance issues, claimed never to have seen the company’s ethics policy despite the fact that, at the time of employment, they had signed the policy. Therefore, while the policy had been made available to the extent the employees had to sign it, the policy had little visibility in general operations.

The researchers discovered the opposite situation at a health care products company where one-third of every manager’s annual raise depended on an appraisal by superiors, peers and subordinates of how well that manager carried out the company’s ethical ideas. Linking ethical performance to personal consequences led to ethical values being an identifiable part of employees’ expected behavior within the company.

The authors hypothesize that external pressures such as negative media attention often promote company ethics policies that are can be easily decoupled. For example, it was only the 1997 media scrutiny of legal and ethical violations at the health care firm Columbia/HCA that prompted internal changes: the introduction of a formal ethics office. Without saying this was mere window-dressing in Columbia/HCA’s case, the authors make a point that critical media attention can put change into action, but that the hasty changes may not mesh substantially with the organizational behavior. In some cases, the resulting changes in “ethical policy” are merely to placate a critical media and an angry public.

From its research, Weaver’s group came up with the following suggestions for implementing policies that are not easily decoupled.

1. The importance of “positive” rather than “negative” duty. It is important that managers take ethical considerations into account in ordinary, everyday decisions and actions. One might have a supportive stance towards a general ethics program, but this might mean little if attention is not paid to ethical considerations on a regular basis.

2. Integrated structures and policies should affect everyday decisions and actions, so that these decisions are made in light of the policies and employees have the confidence of and regular interaction with other departments and their managers.
3. Clear communication about and reinforcement of policies. Employees can often receive many, sometimes conflicting communications about policies and practices. If ethics-oriented communications are presented without any indication of the relevance to the responsibilities and goals of a particular employee, these communications seem irrelevant. Ethics communications have their best impact when supporting mechanisms either reinforce or hold employees accountable to the ethics message.
4. Ethics-oriented performance appraisals. Reward systems may reinforce the message of the ethics program, especially if ethics concerns are made a part of regular performance appraisals (such as those at the health care products company).
5. Attendance at high-profile ethics conferences and meetings. Since business organizations imitate each other and are influenced by standard-setters who set good criteria for business practices, a company's leaders may very well stand to benefit from attending conferences such as the Conference Board's annual ethics meetings.

Ethics in Business Research Fund

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