INTRODUCTION

Managers need simple and practical tools for managing ethical conduct. Therefore, this chapter introduces some basic management concepts that provide a foundation for understanding how to manage for ethical conduct in organizations. These principles can be applied at the department level or at the level of the entire organization. Consistent with the focus of the book, each section concludes with practical implications for managers. Underlying our recommendations to managers are several key assumptions:

1. That managers want to be ethical
2. That managers can and should work to develop their own ethical decision-making skills (see Chapters 4 and 5)
3. That, based on their experience, managers will have insight into the unique ethical requirements of the job
4. That managers will want their subordinates to be ethical as well

IN BUSINESS, ETHICS IS ABOUT BEHAVIOR

In business, when people talk about ethics, they’re talking about behavior. In this context, ethics isn’t mysterious or unusual, nor does it depend on the individual’s innate goodness, religious conviction, or understanding (or lack thereof) of philosophy. People find themselves in work situations every day where they’re faced with ethical dilemmas—questions of right and wrong where values are in conflict. Should I hire, fire, promote, or demote this individual? Should I offer or accept a gift in this or that situation? How should I respond when my supervisor asks me to act against my own beliefs?1

The study of ethical behavior in business involves understanding the factors that influence how people behave in these situations. Although we’ve seen that internal factors such as individual moral development are important, we know that for most people ethical conduct depends, to a large extent, on external factors such as the rules of the work context, the reward system, what peers are doing, what authority figures expect, the roles people are asked to play, and more. In this chapter, we’re going to...
focus on these external factors because they’re the ones that managers can influence the most. Once managers understand how management principles apply to ethical conduct, they can manage ethical behavior more proactively and effectively. On the other hand, if managers fool themselves into thinking that ethical conduct is determined exclusively by some mysterious character trait, they’ll throw up their hands and walk away from situations that they could proactively manage. Or they’ll think that by simply getting rid of a “bad apple,” unethical conduct won’t recur. This kind of thinking is a cop-out. Unethical behavior is rarely as simple as a bad apple. It’s often something about the work environment that allows the bad apple to behave badly. And the work environment is managers’ responsibility. Top managers are responsible for the broad organizational culture (as we’ll see in Chapter 9). But, in most cases, lower-level managers can do a lot to influence the subordinates in their own departments.

**Practical Advice for Managers About Ethical Behavior**

What are the practical implications for managers? First, think of ethics in concrete behavioral terms. Specifically, what kind of behavior are you looking for in your subordinates, and how can you create a context that will support that behavior? Specifying concrete expectations for ethical behavior means going beyond abstract statements, such as “integrity is important here” to more concrete statements, such as “I expect sales representatives to be absolutely honest with our customers about such things as the characteristics of our products and our ability to deliver by a certain date.” Providing a reason for these expectations is also important. “We’re interested in building long-term relationships with our customers. We want them to think of us as their most trusted supplier.” Finally, it’s the manager’s responsibility to create a work environment that supports ethical behavior and discourages unethical behavior just as much as it’s the manager’s responsibility to manage for productivity or quality. Don’t just set ethical behavior goals. Follow up to make sure that they’re achievable and that they’re being met, and model ethical conduct yourself. Your people will pay more attention to what you do than to what you say. Take advantage of opportunities to demonstrate the ethical conduct you expect.

**OUR MULTIPLE ETHICAL SELVES**

To understand ethics at work, we must understand that people are socialized to accept different behavior depending on the context. Cultural anthropologists have known for years that we have multiple selves and that we behave differently depending on the situation we confront. Children in our society are taught very early that it’s all right to be loud and boisterous on the playground, but they must be reverent at the church, synagogue, temple, or mosque. Table manners are important when visiting, but eating with one’s fingers may be acceptable at home. As adults, we play highly differentiated roles, and we assume that each social context presents different behavioral expectations. Football players are expected to tackle each other deliberately and aggressively on the playing field, a behavior that they would be arrested for on the street. Business-
people are expected to be aggressive against competitors but gentle with their spouses and children. Game jargon is often applied to business dealings—like the term playing field—which makes the business dealings less subject to moral scrutiny. One “bluffs” and conceals information in business negotiations the same way one “bluffs” in a poker game. “Bluffing” sounds a lot better than lying (the word “lying” would raise moral awareness,” as discussed in Chapter 5), and the game analogy helps to distinguish business behavior from morality in other situations. Although we might prefer to think that we take a single ethical self from situation to situation, reality suggests that most people accept different rules for different contexts. This means that we can and do have multiple ethical selves.

The Kenneth Lay Example

Kenneth Lay, former chairman of Enron Corporation (until he was forced out by the firm’s creditors in 2002), exemplifies the concept of multiple ethical selves. A Newsweek article, written after Enron’s bankruptcy, described the paradox that was Ken Lay. First, we see the affable leader who was loved and admired by Enron employees. Even Sherron Watkins, the Enron whistleblower who brought Lay her concerns about the accounting problems and was rebuffed, described Lay as a man of integrity. He grew up a poor preacher’s son who pulled himself up by his bootstraps, eventually winning the Horatio Alger Award (designed to foster entrepreneurship and honor the American dream of success through hard work). At the University of Missouri, he was president of a dry fraternity and went on to earn a Ph.D. in economics. He created Enron, and by 2000 it was the seventh largest company in the United States in terms of revenue. Despite becoming quite rich, he never flaunted his wealth. He drove an old Cadillac and used rental cars rather than limos when traveling. He was highly philanthropic in the Houston community, as was his company. He talked about making Houston a world-class city and worked to make that happen, spreading his largesse to the ballet, symphony, museums, the United Way, the NAACP—you name it. He was even discussed as a possible mayoral candidate.

But Lay had another side. He has been described as an arrogant gambler who valued risk taking and boosting the firm’s stock price above all. He transformed Enron from the 1980s merger of two old-fashioned pipeline companies into a huge energy trader. Enron “became a giant casino, taking positions, hedging, betting on winners and losers.” Interestingly, the merger deal was financed by Michael Miliken, 1980s junk-bond trader and one of Lay’s heroes (despite the fact that Milliken had done jail time for financial fraud). Lay fired Enron’s conservative accounting firm, Deloitte Haskins Sells, early on because they were “not as creative and imaginative” as he wished, and he replaced them with Arthur Andersen. He created a corporate culture that was described by insiders as “cutthroat” and “vicious,” and hired Ivy League “hot shot risk takers” like Jeff Skilling (CEO) and Andrew Fastow (CFO) to run it. People who didn’t make their numbers were quickly fired, and a large internal security force came to be feared by employees. Lay was also a political pro. He gave generously to political candidates and received favors in return,
including exemptions from a variety of local and state regulations, although his reach extended all the way to the White House. As the largest single contributor to George W. Bush’s presidential campaign, Lay and other Enron officials met at least six times with Vice President Richard Cheney and his aides while the vice president headed the National Energy Policy Development Group and formulated the Bush administration’s energy policy.5

After CEO Jeff Skilling resigned in August 2001, Lay told employees that the company’s upcoming financials looked fine and he encouraged them to “talk up the stock and talk positively about Enron to your family and friends.” In an on-line discussion, he told employees that he had been buying stock himself. In fact, he had bought about $4 million worth, but what he failed to mention was that he had sold $24 million worth in the previous few months. Those who heeded his suggestion to buy or hold saw their retirement plans wiped out and were furious when they learned that Lay had been unloading his own stock for years. According to Newsweek, although he claims that he was deceived by unscrupulous subordinates,6 Lay had to know about Enron’s “elaborate schemes to hide losses and debts”—the off-the-books partnerships that no one, including stock analysts, really understood.

“The difference between ‘lie’ and ‘lay’
Has fallen into deep decay.
But now we know from Enron’s shame
That Lay and “lie” are just the same”7

So, is Kenneth Lay ethical or unethical? The answer is that, like many people, he has multiple selves. In some areas of his life, he did good things, including his many philanthropic efforts. But philanthropy shouldn’t be equated with ethical conduct in daily business dealings. In fact, if he felt responsibility for what happened, wouldn’t he turn over at least some of his estimated $20 million net worth to help those who lost so much? In this case, hubris and an inclination toward risk taking apparently combined in a business leader who created a Darwinian corporate culture that brought out some of the worst inclinations in himself and others.

A prominent victim of the Enron bankruptcy was Cliff Baxter, Enron’s 43-year-old former vice chairman, who committed suicide following Enron’s collapse. We can only speculate about the reason, but a clash of his multiple ethical selves may have played a role. Those who knew him described Baxter as a family man who balanced his home and work lives. He was certainly instrumental in helping to create the massive Enron fortune in the 1990s. But over time he clashed with Andrew Fastow, openly criticizing the firm’s involvement in financial deals he considered to be questionable and inappropriate. Unable to influence what was happening, he left the company in May 2001 (citing a desire to spend more time with his family). We will likely never know for sure why Baxter committed suicide. Friends said that he was “devastated by the company’s demise.” He may have felt responsible for the many employees who lost their life savings in the collapse that could have been prevented. It’s possible that the ethical self who cared about those employees could no longer live with the self who contributed to their pain.8
The Dennis Levine Example

Now for an example of someone lower in the organizational hierarchy. Dennis Levine’s personal account of his insider-trading activities, which resulted in his arrest and imprisonment in the 1980s, also suggests multiple ethical selves. He describes himself as a good son, husband, and father, and a man who had been encouraged by his parents to “play straight.” “I come from a strong, old-fashioned family … [my father] taught me to work hard, believe in myself, and persevere … as a kid I always worked.” Levine’s wife, Laurie, had no idea that he had been secretly and illegally trading in stocks for years. In fact, the family lived in a cramped one-bedroom apartment for nearly three years after their son was born despite Levine’s huge insider trading profits. That someone is “from a good family” or is “a family man or woman” is no guarantee of ethical behavior in the office. At the office, the manager is dealing with the “office self,” who may be very different from the “family self” or the “religious self.”

Levine was a good son, husband, and father. But he separated his family self from his insider trading self. Why was his insider trading self allowed to exist? We can only speculate that this office self fit into an environment where peers were crossing the ethical line and not getting caught. Most important, his continuing huge profits led him into a downward spiral of unethical behavior that he found difficult to stop despite his recognition that it was illegal.

Practical Advice for Managers About Multiple Ethical Selves

So what should managers do? First, it’s important to evaluate the organizational environment. As a lower or middle-level manager, you can do only so much to influence that environment, and if senior executives are creating a cut-throat Darwinian culture where only bottom-line results count, it’s probably time to look elsewhere for a job. Chapter 9 provides information about how to conduct an “ethical culture audit” that can help you make that tough decision. But let’s assume that senior management is supportive. Then, it will be up to you to contribute to the larger organizational culture by creating a work environment that supports ethical conduct and integrity for the people you manage. Integrity is defined as that quality or state of being complete, whole, or undivided. The ultimate goal is to bring these multiple ethical selves together—to support the idea that an individual can be as ethical at the office as at home. But managers should pursue that goal with the practical understanding that many people find it quite possible to divide themselves into multiple ethical selves.

Begin by analyzing yourself. Get to know your own office ethical self. Is it consistent with your personal ethical self? If not, what will be required to bring the two together? Again, you’re an important role model for your subordinates. If you’re clearly a “whole” person of integrity, they’re more likely to aspire to “wholeness” themselves.

Next, think about those who report to you. Make no assumptions about ethics at work based on a person’s background, religious affiliation, family life, or good deeds
in the community. Instead, find out what norms and expectations guide their work
selves and make sure that they support ethical behavior. You can learn a great deal
simply by keeping your eyes and ears wide open. Of course, the best way to find out
how your people think about these issues is to ask them, either in person or in survey
form. You may be surprised what they’ll tell you. And you’re sending an important
symbolic message about what concerns you just by asking. Do they feel, as many sur-
veys have suggested, that they must compromise their personal ethics to get ahead in
your organization? If so, what do they think can be done about it?

Find out what influences their thoughts and behavior in ethical dilemma situations.
Find out what inhibits them from being the best they can be—from doing the right
thing. You can base your questions on real or hypothetical situations. Most supervisors
have never bothered to ask the question. Is it any wonder then that most subordinates
end up believing that their managers don’t really care about ethics? Once you’ve had
this type of discussion, it’s essential that the organization follow up in ways that sup-
port ethical conduct. A number of practical ideas for how to do that follow.

REWARD SYSTEMS

People Do What’s Rewarded and
Avoid Doing What’s Punished

Reward systems are probably the single most important formal influence on people’s
behavior at work. Ask any manager about reward systems, and he or she can probably
recite a few basics recalled from a college psychology or management class. For
example, most of us remember something about reinforcement theory—people are
more likely to behave in ways that are rewarded, and they’re less likely to do what’s
punished. People in work organizations are constantly on the lookout for information
about rewards and punishments—especially if this information isn’t explicit. In fact,
the more ambiguous the situation, the more people search for clues. They know that
to be successful at work, they’ll have to determine what’s rewarded and do those
things while avoiding behaviors that are punished. Remember this: what’s rewarded
gets done!

People Will Go the Extra Mile to
Achieve Goals Set by Managers

Rewards are often tied to explicit goals (Sandy will win a trip to the Caribbean if she
hits a particular sales target within a particular period of time). Goals focus attention
on the desired outcome (the sales target and vacation), and they lead individuals to
strategize about how to achieve the goals that have been set. That is generally consid-
ered to be a good thing. Meeting the goal makes Sandy feel good (providing psycho-
logical benefits), AND it results in a significant valued reward.

But researchers now understand more about how people think about goals,
what they will do to achieve goals, and what happens when they fall short of goal
achievement. For example, intent focus on attainment of a task goal can distract people from other goals, such as ethical goals. Researchers have found that employees may be less likely to report problems to management if they are intently focused on achieving the task.\(^1\) In addition, attempting to achieve a task goal can increase risky behavior, while falling short of the goal can lead to increased lying about performance.\(^2\) So, imagine that a claims handler at an insurance company is assigned an explicit goal to close a certain number of claims within a particular period of time and is offered a financial reward for doing so. He is likely to find ways to reach that goal even if it means denying some legitimate claims, and he would be less likely to report concerns about legitimate claims being denied.

Incentives and goals are popular with managers because they work really well to motivate behavior. But managers often fail to recognize their potential to motivate unethical behavior. Let’s look at an example.

**How Reward Systems Can Encourage Unethical Behavior**

**THE ELECTRONICS APPLIANCE SALES EXAMPLE** Imagine an employee in an electronic appliance store who works on a modest salary plus commission basis. In other words, the salespeople are paid a percentage on the items they sell. The company frequently advertises specials on certain television models in the local newspaper, and, of course, people come into the store asking about those models. But because of the lower profit margin on these sale items, the company also lowers the commission that sales personnel receive on these models. The higher rewards (higher commissions) come with sales of models that aren’t on special. The company prefers to sell the higher-priced models but advertises the lower-priced ones to get customers into the store. The company has set sales goals for each salesperson, with higher goals for the higher-priced models. The company offers little sales training. New salespeople spend a day or so working with the store manager, and then they’re pretty much on their own. The manager doesn’t seem to care how sales are made—just that they are made. The manager’s own commissions are based on store sales.

If the salespeople value money (and their jobs), and the assumption is that they do, they’ll be motivated to sell more of the higher-priced models. They can do this in a variety of ways. For example, they might point out that some of these models have features that the sale models don’t have. Some customers will probably listen to the advice and buy the more expensive models. As buyers listen and go along, the connection between selling higher-priced items and positive outcomes (commissions, praise from the manager) becomes stronger, and the motivation to sell more of these items grows.

But there are still probably lots of folks who insist on buying the sale models. To sell more of the higher-priced models, the salesperson might try stressing the advantages of the high-priced model’s features, whether or not the customer needs those features. The salesperson may find that a good number of people go along. There are more rewards—higher commissions, more praise from the manager—and no obvious
negative outcomes. This behavior can even be justified, or at least rationalized. These customers are getting features they wouldn’t otherwise get, right? And the salesperson doesn’t know much about their finances or personal life, so there would be no way to know (without asking) if spending more money really had negative consequences for the customer.

Things are going so well that the salesperson might now be tempted to go a bit further—perhaps playing with the controls to make it look as if the picture on the sale TV is a bit fuzzier than the picture on the more expensive models. That makes it even easier to sell the more expensive models.

Explained this way, the connection between goals, rewards, and unethical behavior seems pretty clear. Although no one was explicitly telling salespeople to be unethical, the motivating factors were there: management set higher sales goals for higher-priced models and rewarded the sale of these models with higher commissions. The store manager didn’t seem to care how the sales got made and didn’t object to the salesperson playing with the controls to deceive customers.

Management wanted to sell higher-priced models and set higher sales goals for those models. But the exclusive focus on goals frequently obscures the means to the goal—how you get there. If managers are concerned about ethical conduct, it’s essential that they focus at least as much on how the goal is being achieved. They must let their workers know that they’re interested in ethical means as well as ends and that they plan to evaluate both. If individuals are rewarded for meeting goals no matter what methods are used, they’re much more likely to try methods that cross over the ethical/unethical line.

Many people have told us of their experience with managers who say something like this: “I don’t care how you do it, just do it.” Or “I don’t want to know how you meet the goal, just meet it.” These statements are clearly giving permission to use any means necessary (ethical or unethical) to meet the goal. Managers who have uttered these words shouldn’t be surprised to find that unethical behavior is often the result. Goal setting and incentives combine to create the most effective motivational method available to managers. Set challenging and achievable goals, reward people for meeting them, and people will go to great lengths to achieve the goals that have been set. That’s why responsible managers need to be clear about the importance of using only ethical means to achieve the goals they have set for their employees.

**Practical Advice for Managers About Reward Systems**

First, remember that people do what’s rewarded. And these rewards don’t have to be explicit. The electronics store in our example would probably never have dreamed of saying that it was rewarding salespersons for being unethical. In fact, they weren’t doing this explicitly. But if the designers of the motivational plan had thought carefully about the plan’s potential effects (and it’s their responsibility to do so), they might very well have identified its fatal flaw—it focuses on ends only and leaves it to the salespeople to figure out the means (how to accomplish the goals). Managers are more likely to identify these flaws in advance if they put themselves in their employ-
employees’ shoes. Think about what the average individual would be likely to do given the reward system that’s in place or being considered. What kinds of attitudes and behaviors are being rewarded explicitly or implicitly? How can you find out? Ask your staff. If you have good open communication with them, they’ll tell you.

Second, think carefully about the goals you’ve set for your employees. Combining specific, challenging, and achievable goals with rewards for goal achievement is a powerful motivational tool. People set their sights on those goals and work hard to achieve them. It’s up to the manager to think about the likely behavioral outcomes and potential unintended consequences. Again, put yourself in employees’ shoes and ask yourself what those consequences might be. Also ask yourself whether you have set goals for ethical conduct (e.g., honesty with customers) as well as for bottom-line performance (e.g., number of TVs sold)—for means (how we get there) as well as ends. Are you measuring both? We believe in an ethical “Pygmalion effect.” In tests of the more general Pygmalion effect, researchers have found that people in school and work settings generally live up to the expectations that are set for them, whether high or low. Students and workers perform better in response to a teacher’s or supervisor’s high expectations, but they fall behind if they’re expected to fail. With the ethical Pygmalion effect, expectations for ethical behavior (as well as performance) are set high, and people are expected to fulfill them. This ethical Pygmalion effect appeals to people’s desire to do what’s right. It is also likely to get people to think about how they achieve their goals, not just whether they’ve achieved them.

Recognize the Power of Indirect Rewards and Punishments

It’s important to recognize that workers don’t have to be individually rewarded for the message to have an impact. A powerful extension of reinforcement theory is social learning theory. According to social learning theory, people learn a great deal from observing the rewards and punishments of others. Recall that we said that workers are constantly on the lookout for information about rewards and punishments. But they don’t have to experience the reward or punishment themselves in order for these to influence behavior. If they see that others get away with lying, cheating, or stealing, or worse yet, if they see those individuals promoted or getting the big bonuses, they’re much more likely to try these behaviors themselves. On the other hand, if they see someone quickly dismissed for lying to a customer, they learn that such behavior is unacceptable.

THE TAILHOOK EXAMPLE  As an example of how people learn about rewards and punishments from observing others, consider the 1991 Tailhook scandal. The Tailhook Association is a nonprofit organization of naval aviators, and in 1991, the organization had formal ties with the U.S. Navy. According to many insiders, the type of sexual harassment (of some 90 women) that occurred at the annual Tailhook Association meeting held in the Las Vegas Hilton in 1991 had been implicitly rewarded (or at least not punished) in the Navy for some time. These sexual harassment rituals were
regular events that the male participants experienced as fun (rewarding). The Navy brass was known to turn a blind eye to reports, responding with a “boys will be boys” attitude. Investigations were torturously slow and resulted in little, if any, punishment. The reward system became well known, and therefore the men continued to engage in these “rewarding” behaviors that weren’t punished.

Many people (especially women) looked to the Navy’s reaction to the Tailhook scandal as an opportunity to change the messages being sent to all about the acceptability or unacceptability of such conduct. Some early signs were encouraging, but the longer-term results were disappointing to many women. The secretary of the Navy resigned his post at the outset of the scandal, and the Navy severed ties with the Tailhook Association in late 1991. Investigations of potential criminal misconduct were also launched. However, the Navy’s discussions with 1,500 men resulted in only two suspects. When the Pentagon took over, 140 aviators were accused of indecent exposure, assault, or lying under oath. However, only 80 of these individuals were ever fined or even moderately disciplined. None of those involved in the assault of the 90 women was court-martialed or seriously disciplined. Perhaps most significant, in early 1994 the young woman who filed the first complaint, Lieutenant Paula Coughlin, resigned from the Navy, explaining that Tailhook “and the covert attacks on me that followed have stripped me of my ability to serve.” Lieutenant Coughlin left amid “rumor mongering by officers trying to impugn her credibility” and with a “stack of hate mail.” However, also in 1994, a federal jury awarded Lieutenant Coughlin $1.7 million in compensatory damages and $5 million in punitive damages, holding the Hilton Hotel responsible. The Navy’s top admiral, Frank B. Kelso, retired two months early “with a flowery note from the Defense Secretary praising him ‘as a man of the highest honor and integrity.’” The Tailhook Association continues to hold an annual convention, but it is now a much tamer affair. In 1999, after an investigation of the Tailhook Association and its 1999 convention in Reno, the Navy restored its ties with the organization. Secretary of the Navy Richard Danzig said, “The shameful events of the Tailhook Convention in 1991 led to a withdrawal of our support for the Association. Over the past eight years, however, the Association took a number of constructive steps that warranted a review of its status … [and] we’ve concluded that the time is right to restore ties.” The association has committed itself to prevent the type of misconduct that occurred in 1991. (See www.tailhook.org for more information on the association.)

The message to Navy men (and women) has clearly been mixed. Yes, the event caused a lot of turmoil, probably enough to suggest to Navy men that assaulting their female colleagues was not going to be as “rewarding” as it used to be. In fact, membership in the Tailhook Association dropped dramatically after the incident, especially among younger members. And several admirals have been discharged for inappropriate sexual behavior committed since Tailhook. Sexual harassment sensitivity training is now required in the Navy. But in 1996 Newsweek reported that in the four years after Tailhook, the Navy received more than 1,000 harassment complaints and more than 3,500 charges of indecent assault. Women still complained that they faced reprisals for filing complaints. So what’s the message that’s being sent today? We
don’t know. But the Navy should be aware of the powerful messages being sent to all Navy personnel every time a decision is made to respond to a sexual harassment complaint.

The problem with sexual harassment goes beyond the Navy. In 2005, the Washington Post reported results of a survey that found more than half of the women studying at all three military academies had experienced sexual harassment of some kind. One in seven reported being sexually assaulted, but few had reported any of the incidents. Reasons included fear of retaliation, privacy concerns, loyalty to classmates, and concern about being punished for their own behavior such as underage drinking.18

Managers, take note of the messages you’re implicitly sending to all of your workers by what you reward and punish (or fail to punish). Employees are constantly on the lookout for these cues. They want to know what’s okay and not okay in your work environment. If they observe that people advance by stepping on others, by lying to customers, and by falsifying reports, they’ll be more inclined to do so themselves. If they see sexual harassment go undisciplined, they may feel free to engage in it themselves. If they see those who report misconduct suffering reprisal, they won’t risk reporting problem behavior. So if you become aware of unethical behavior in your group, chances are that it is being rewarded somehow. Ask yourself how the reward system might be intentionally or unintentionally rewarding the undesired behavior, and take responsibility for changing it. On the other hand, if unethical individuals are dismissed, and persons of integrity advance, the ethical lesson is also clear. Integrity is valued and unethical behavior won’t be tolerated.

**Can You Really Reward Ethical Behavior?**

Reward systems assume the use of rewards and punishments. However, for years, management writers have preached that managers should use rewards whenever possible—that punishment is inherently a bad management practice. This idea, good as it sounds, may be impractical when the goal is to encourage ethical behavior and discourage unethical behavior. Relying on rewards means rewarding ethical behavior. So, let’s think about how a manager might reward ethical behavior. Perhaps he or she could give awards or bonuses to those whose expense reports were honest and accurate or to those managers who didn’t harass their secretaries. Ridiculous? Of course. Workers don’t expect to be rewarded for behaviors that are expected of everyone—for simply doing the right thing. So in the short term, it’s quite difficult to reward ethical behavior.

**IN THE LONG TERM, YES.** If we switch to longer-term thinking, there should be rewards for doing the right thing. For example, in most organizations people are aware of how one gets ahead. Large organizations have performance management systems that provide regular feedback to employees about their performance. Many now include what is called “360 degree feedback” from superiors, peers, and subordinates. This information is used to make important decisions about pay and promotion. Is information about integrity incorporated into those systems? Is it weighted heavily
enough to make the point that integrity matters at least as much as bottom-line performance? Or do people get highly compensated and promoted despite ethical lapses? If so, the message is clear. If you want to get ahead around here, you have to do whatever it takes. People who make it are likely the ones who have decided to go along to get along or, worse yet, the ones who stepped on others to get ahead. Or are those who have advanced to the highest levels known for their integrity? If so, the organization is sending a message about the importance of integrity. Rewards may be a limited tool for influencing specific ethical behaviors today or tomorrow, but they should be used to set the tone for what’s expected and rewarded in the long term.

What About Punishment?

As for punishment, we all know that managers sometimes have to discipline their subordinates, just as responsible parents are expected to discipline their children. It’s part of the manager’s job to step in when an employee is headed down the wrong path. We also know that discipline works. If people expect their misconduct to be detected and punished, they’re less likely to engage in it. So, if it works, why not use it? Well, it turns out that punishment works best when it’s carried out in a particular way—when workers perceive it as fair.

If we examine the idea that punishment should be avoided, we find that it’s based on old psychological research that was conducted on rats and small children. It has little to do with adults in work settings who can distinguish punishment that’s fair (i.e., punishment that is deserved and fairly administered) from punishment that’s unfair. Have you ever heard an adult say, “I had it coming, I deserved it”? As Dennis Levine said of his arrest and imprisonment for insider trading, “I’ve gained an abiding respect for the fairness of our system of justice. … When I broke the law, I was punished. The system works.” He also said, “My former life was destroyed because I figured the odds were a thousand to one against my getting caught.”19 If he had thought he would be caught and punished, the odds would have been reversed, and he may never have cut an insider trading deal. Once caught and punished, he acknowledged that the punishment was just.

Punishment should be administered fairly. Research evidence suggests that punishment results in more positive outcomes (e.g., the behavior improves and the employee becomes a better corporate citizen) if the recipient perceives it to be fair.20 As we said in Chapter 6, these positive outcomes are linked primarily to the appropriate severity of the punishment and employee input. The punishment should “fit the crime,” and it should be consistent with what others have received for similar infractions. It’s also important that you give the employee an opportunity for input—to explain his or her side of the story. Also, the disciplined worker is more likely to respond positively to the punishment if you approach it in a constructive fashion and carefully explain the reasons for the punishment. Finally, if you punish, do it in private. Punishment can be a humiliating experience, and public punishment adds insult to injury.

Recognize punishment’s indirect effects. The punished employee should not be the manager’s only concern. Social learning theory suggests that other workers will be
powerfully affected as well. Remember, we learn a great deal from observing the
rewards and punishments of others. But if the punishment occurs in private, how will
others know about it? Anyone who has worked in a real organization knows about the
“grapevine,” the communication network that flashes organizational news throughout
department or company. Good managers are aware of the power of the grapevine and
rely on it to transmit important information. And research has discovered that when
people are aware that unethical behavior has taken place, they want the violators to be
punished.21 The idea here is that people want to believe that the workplace is “just”—
that good guys are rewarded and bad guys are punished. They also want to feel that
they aren’t suckers who, in a sense, are being punished for following the rules when
others get away with breaking them. This is an important reason why managers must
discipline unethical behavior when it occurs. There must be no exceptions. High-level
rule violators must be held to the same standards. By clearly disciplining all rule vio-
lators, managers not only send an unequivocal message to the violator and all
observers that this behavior won’t be tolerated, but they support the notion that this is
a just place to work where the rules are enforced fairly and consistently.

Imagine how the honest employees at Enron must have felt—long before the pub-
lic implosion of the company in 2001—when two Enron energy traders in New York
made massive fraudulent energy trades and siphoned off company money into their
own personal accounts in the mid-1980s. In short, the traders had kept two sets of
books and had routinely destroyed records to obliterate any paper trail. When Enron's
board heard of these shenanigans, CEO Ken Lay said openly at a board meeting that
the two traders “made too much money to let them go.” So, the trading crooks were
allowed to stay on, until an internal investigator discovered the magnitude of the fraud
and the company took an $85 million charge to after-tax earnings to cover losses. Lay
complained at an all-employee meeting that he never knew about these activities.
Later, a lawyer involved in a lawsuit against the company said, “Any honest compe-
tent management, confronted with the conduct of Borget and Mastroeni, as revealed
to Enron’s senior management in January 1987, would have fired these gentlemen
without delay.”22 It makes us wonder if Enron’s later difficulties could have been
avoided if only the executive team had regularly disciplined the company’s rogue
employees.

THE THOMAS J. WATSON, JR./IBM EXAMPLE  In Father Son & Co.; My Life at
IBM and Beyond, Thomas Watson Jr., the son of IBM’s founder, ran the company for
almost 20 years at a time when IBM dominated the computer industry. In his book, he
discussed the importance of swift, severe punishment for breaches of integrity and the
indirect effects of punishing or not punishing. Watson said, “If a manager does some-
thing unethical, he should be fired just as surely as a factory worker. This is the whole-
some use of the boss’s power.” But, as he explains in the following excerpt, his
managers didn’t always follow his advice.

On one occasion some managers in one of our plants started a chain letter
involving U.S. savings bonds. The idea was that one manager would write
to five other managers, and each of those would write to five more, who
would each send some bonds back to the first guy and write to five more, and so on. Pretty soon they ran out of managers and got down to employees. It ended up that the employees felt pressure to join the chain letter and pay off the managers. I got a complaint about this and brought it to the attention of the head of the division. I expected him to say, at a minimum, “We’ve got to fire a couple of guys, I’ll handle it.” Instead, he simply said, “Well, it was a mistake.” I couldn’t convince him to fire anybody. Now, you could admire him for defending the team, but I think there is a time when integrity should take the rudder from team loyalty. All the same, I didn’t pursue the matter any further, and my failure to act came back to haunt me.

A couple of years later in that same division, a manager fired a low-level employee who had been stealing engineering diagrams and selling them to a competitor. Firing him would have been fine, except that the manager handled it in a brutal way. The employee in question had one thing in his life that he was proud of—his commission in the U.S. Army Reserve, where he held the rank of major. Instead of simply going to the man’s house and telling him, “You swiped the drawings and we’re going to fire you,” the manager picked a week when the fellow was in military camp to lower the boom. Somehow the military authorities got involved as well, and the man was stripped of his commission. The humiliation caused him to become insanely angry, and for the next few years he devoted himself to making me uncomfortable. He sent pictures of Tom Watson Jr. behind bars to his senators and his congressmen and to every justice of the Supreme Court. And he kept harking back to that chain letter, because he knew we had tolerated the men responsible for it. Eventually he simmered down, but the incident really taught me a lesson. After that I simply fired managers when they broke rules of integrity. I did it in perhaps a dozen cases, including a couple involving senior executives. I had to overrule a lot of people each time, who would argue that we should merely demote the man, or transfer him, or that the business would fall apart without him. But the company was invariably better off for the decision and the example.23

Sometimes employees are punished for trying to do the right thing. For example, Owen Cheevers was an experienced researcher at the Bank of Montreal who wrote an honest report expressing his concerns about the radio industry. Investment bankers at the firm asked him to make his report more positive. When he refused to write a more glowing report, Cheevers was fired. Obviously, such punishment sends a powerful message to all other employees who are aware of it—go along or be fired.24

**Practical Advice for Managers About Punishment**

Tom Watson learned the hard way what can happen when breaches of integrity aren’t disciplined swiftly and severely. Workers have long memories about incidents such as the chain letter and how management handles them. They tuck that sort of informa-
tion away for later use. When the employee who stole the engineering drawings was fired in a particularly humiliating way, he was outraged. His severe and public punishment seemed particularly unfair when compared with the way others had been treated. And he reacted in ways that managers are told to expect from punished employees. He was angry at the punisher and the organization.

The important point about punishment is that adults differentiate between fair and unfair punishment. If you use punishment consistently to enforce the rules, employees will expect to be punished when they break them. However, they expect punishment that fits the crime and that is consistent with how others have been treated. In most cases, if you impose discipline fairly, the problem behavior improves and the subordinate goes on to be a productive organizational citizen.

Remember that you should be concerned about observers who pay a great deal of attention to how rule violations are handled. When the chain letter offenders weren’t severely punished, an implicit message was sent to all who were aware of the scheme, and expectations were set up for how management would respond to future breaches of integrity. A “just” organization is one that punishes rule violations fairly and consistently and doesn’t punish people who try to do the right thing. Workers expect managers to discipline fairly, and they’re morally outraged when management doesn’t do its job.

“EVERYONE’S DOING IT”

People Follow Group Norms

“Everyone’s doing it” is the refrain so frequently used to encourage (and rationalize or justify) unethical behavior. We’ve all heard it. From fraternity brothers who are expected to advise their peers about the content of exams, to college football players who accept booster money, to waiters and waitresses who don’t claim all of their tip income for tax purposes, to auditors who sign off on financial statements that haven’t been thoroughly checked, to insider traders who share secrets about upcoming financial deals, individuals are much more likely to engage in unethical behavior if they’re convinced that others are doing it too. It lets them off the hook by providing an acceptable justification and rationale for the behavior. Also, recall what you learned about moral awareness in Chapter 5. People are more likely to recognize issues as “ethical issues” if there is social consensus in the group that the issue raises ethical concerns. But if “everyone is doing it,” social consensus is low (everyone seems to agree that the behavior is not a problem) and it’s more likely that ethical concerns just won’t come up.

Rationalizing Unethical Behavior

For some behaviors, the refrain “everyone is doing it” is used primarily as a rationalization. The employee who inflates his or her expense reports believes that it’s justified first because everyone else is doing it (and getting away with it, too). A group may
also develop other reasons to bolster the rationalization process. For example, inflating expenses may be explained in the group as a way of compensating for the extra hours spent away from home, to pay for the drink at the bar or a movie, and other expenses that aren’t deductible under the organization’s formal travel cost reimbursement policy. These rationalizations are often explicitly or implicitly supported by the boss, who suggests the behavior or who engages in it himself or herself. Either way, the manager sends a powerful message that it’s okay to bend the rules, a message that can easily be generalized to other rules in the organization.

A better way to manage the process is to state the rules clearly and then enforce them. In other words, if it seems reasonable to reimburse a traveling employee for a drink at the bar, a movie, or a telephone call home, then change the rules so that these expenses can be legally reimbursed under the organization’s formal travel policy. Then abuses of the system can be disciplined.

Pressure to Go Along

For other behaviors, the “everyone is doing it” refrain represents not just a rationalization but actual pressure to go along with the crowd. The argument is used to encourage those who are reluctant. “Aw, c’mon, everybody does it!” Not going along puts the individual in the uncomfortable spot of being perceived as some sort of goody-goody who is highly ethical but also unlikable, and certainly not someone who can be trusted. The result can be ostracism from the group, and most of us would rather go along than be ostracized. Many individuals will go along with unethical behavior because of the strong need they have to be accepted. If left to their own devices, they might very well follow the rules. But, in the group situation, they feel that they have no choice but to comply, or at least remain silent about what others are doing.

Practical Advice for Managers About Group Norms

So what does this mean for the manager? Above all, you must be acutely aware of the power of group norms (informal standards of behavior) that may be consistent or inconsistent with the formal, written rules. Group norms represent what’s really happening in the group, and you must be in touch with this reality. Any new employee will be quickly schooled in “the way we do things in this group” and will be expected to go along. Loyalty to the group may be the most powerful norm and one that’s extremely difficult to counteract. If the group norms support ethical behavior, you have no problem, but if they don’t, you face a particularly tough situation. If the group is strong and cohesive, one approach you can use is to identify the informal group leader and attempt to influence that individual, hoping she or he will influence the others. It’s also important to consider the reward system. Norms often arise to support behaviors that are implicitly rewarded. If people are doing something, it’s usually because they find it rewarding and the system somehow encourages it. Changes in the reward system can lead to changes in group norms.
THE SLADE COMPANY CASE EXAMPLE  A classic Harvard Business School case explains how a highly productive manufacturing work group with a strong informal leader has created a problematic group norm for punching in and out. After the foreman leaves, all but one of the group members goes home. The one person remaining behind punches out all of the other group members. The result is that group members are paid for more hours than they actually work. On occasion, when a group member is delayed in the morning, the group punches him in. But this is carefully controlled, and the group has developed norms so that this practice is not abused. Although the punch-out system seems to be clearly wrong, the case is complicated by the fact that management admits that although pay is low, productivity in the group is high. Furthermore, the group is highly cohesive and very willing to work hard when necessary to fulfill last-minute orders or to solve unusual production problems. The workers also value the ability to have some control over the workday. Finally, management has known about the practice for some time and has ignored it.

The solution to the case isn’t clear-cut. The case writers have suggested that management might be better off leaving well enough alone. “If it ain’t broke, don’t fix it.” However, we believe that this is impossible if the ethical dimensions of the case are brought into focus. Leaving it alone implies tacit acceptance and approval of rule breaking and sends that message not only to this work group but to all of the others as well. Other groups that, for some reason, can’t manage to do the same (perhaps because of less cohesion or because their supervisor stays later) will no doubt resent the injustice. Management must also accept some responsibility for tacitly approving this over a long period of time.

Remembering that people do what’s rewarded, we believe that the norm is most likely to change via adjustments in the reward system. For example, moving to a five-day salary (somewhat higher than their current average take home pay) rather than hourly pay would reward people for getting the job done rather than staying a certain number of hours on weekdays. Group members could still be paid extra for weekend overtime work when it’s available. If the late-arrival norm isn’t being abused, it could be institutionalized. If someone must be late, a new rule could state that he or she must inform someone in the work group by a certain time. Like absences, a certain number of late arrivals would be allowed within a specified time period. The informal group leader should be involved in devising the solution with an appeal to his or her concern for fairness to other workers in the organization.

PEOPLE FULFILL ASSIGNED ROLES

Roles are strong forces for guiding behavior, and workers are assigned roles that can powerfully influence their behavior in ethical dilemma situations. Roles can reduce a person’s sense of his or her individuality by focusing attention on the role and the expectations that accompany it. It doesn’t really matter who fills the role. It’s the role requirements that are important. This focus on the role reduces the individual’s awareness of the self as an independent individual who is personally responsible for an outcome. This psychological process is called deindividuation.26
So, the individual acts “in role” and does what’s expected. This is fine when behaving “in role” means doing the right thing. But what happens when “in role” behavior involves behaving illegally or unethically? For example, aggression is part of the police officer’s role. But sometimes, police officers step over the ethical/legal line when they become overly aggressive, assaulting suspects without cause. Several such incidents have been recorded by bystanders on videotape in recent years. Another important part of the police officer role is loyalty to other police officers and protection of one’s peers. Police officers often travel in pairs and must rely on each other in difficult, life-threatening situations. Therefore, loyalty, protection, and trust within the ranks serve an important, positive purpose. But loyalty can also end up supporting unethical behavior when, for example, a fellow police officer is overly aggressive and a peer who observes the conduct doesn’t report it.

Consider this example from an old television series. Two female police detectives were part of a stakeout to catch one of their fellow police officers stealing heroin. They realized that they faced a complex moral dilemma when he told them that he was stealing the heroin for his mother who was dying of cancer and in severe pain. He had clearly broken the law, and the rules clearly said that they must turn him in. But loyalty and protection were important parts of their police role. Their colleague had good intentions—to help his dying mother. After much discussion and individual soul searching, they decided to protect their colleague and keep silent about what they knew. Although we may disagree about whether they made the right decision, the point here is that the peer protection and loyalty aspects of the police officer role were an important part of that decision.

The Zimbardo Prison Experiment

A powerful and widely cited social-psychological study illustrates the power of roles to influence behavior. The researchers created a prison environment in the basement of the psychology building at Stanford University. Twenty-four psychologically healthy subjects (people like us) were recruited and randomly assigned to play the roles of prisoners or guards. General rules were provided regarding how to fulfill the role, but subjects were left free to interact within those general guidelines. With the cooperation of the local police, the guards were actually sent out to arrest the prisoners, book them, and transport them to their simulated cells. The prisoners were given uniforms and were referred to by identification numbers. The guards were given comfortable quarters and a recreation area. The guards wore uniforms and mirrored sunglasses, and worked standard eight-hour shifts where they were given a great deal of control over the prisoners, short of physical abuse. With rare exceptions, the guards enjoyed the social power and status of the guard role. Some “guards” were exhilarated by the experience, reinforcing their guard role with aggression, threats, and insults. The “prisoners” quickly began to show dramatic signs of emotional change, including acute anxiety, helplessness, and passivity verging on complete servility. Some became severely distressed and physically ill.

Although the experiment was originally scheduled to last two weeks, it was halted after only six days due to concern about the prisoners’ well-being. “At the end
of only six days … it was no longer apparent to most of the subjects (or to us) where reality ended and their roles began. The majority had indeed become prisoners or guards, no longer able to clearly differentiate between role playing and the real self. There were dramatic changes in virtually every aspect of their behavior, thinking, and feeling.”

After the experiment was concluded, guards expressed a combination of excitement and dismay at the darker side of themselves that had emerged. The simulated situation had become real very quickly, and both sides readily assumed the roles expected of them as members of their respective groups (prisoner or guard). This occurred despite the other roles these individuals may have played in their “normal” lives just days before. Finally, when individuals attempted to deviate from the role behavior, the deviation was quickly suppressed by pressure to conform expressed by other group members. The experimental results were used to support the “situational” explanation for prison behavior. In other words, perfectly normal people behaved cruelly and aggressively when placed in a role where these behaviors were either expected or allowed.

The Zimbardo experiment can help us to better understand the 2004 Abu Ghraib prison scandal in Iraq. At Abu Ghraib, beginning in 2003, poorly trained American military police officers (MPs) and civilian contractors tortured Iraqi captives in what had ironically been one of Saddam Hussein’s most infamous prisons. The brutal torture ranged from physical violence to verbal, psychological, and sexual abuse. The American public became incensed when photographs of the abuse showed up on the Internet thanks to one young military policeman, Joseph Darby. The most famous photos include one of a supervisor giving a thumbs up sign while standing next to a pyramid of hooded, naked Iraqis. Another shows female Private Lyndie England leading a naked Iraqi around on a leash. According to the Red Cross, most of the prisoners at Abu Ghraib had committed no crime. They had just managed to be in the wrong place at the wrong time. So, what drove these Americans, men and women, to engage in such horrific behavior and to laugh at the humiliation of other human beings? What happened at Abu Ghraib was complex and likely caused by many factors. But at least some of them seem hauntingly reminiscent of the Zimbardo experiment. The Abu Ghraib guards quickly donned the role of prison police and they relished the power over prisoners that accompanied the role. This in-role behavior was likely enhanced further by intelligence officers’ encouragement to use more aggressive techniques to soften up the prisoners for interrogation and by praise when such techniques “worked.”

**Roles at Work**

But prisons aren’t your average work setting. How do the results of this experiment apply to work organizations? People enter work organizations in a state of “role readiness.” In this state, they’re likely to engage in behaviors that are consistent with their organizationally prescribed role, even if those behaviors violate other values they hold (another example of multiple ethical selves). A particularly interesting example is...
providing roles provided by corporate professionals such as lawyers, physicians, and accountants. Professionals are thought to adhere most closely to their professional roles. In fact, this is part of the definition of a professional. Although there’s little research evidence, much anecdotal evidence suggests that many corporate physicians, lawyers, and accountants identify more closely with their organizational role. For example, Johns Manville medical personnel conformed to corporate policy and remained silent about asbestos exposure, despite the known medical dangers.31 In their dual roles of physician and organizational member, the latter took precedence. The same can be said of auditors who are supposed to adhere to the ethical guidelines of their professional organization, the AICPA. They are supposed to protect the public interest and report financial irregularities they find. As we have learned from recent auditing scandals, however, the corporate organizational role seems to take over for many.

Conflicting Roles Can Lead to Unethical Behavior

In their jobs, people are sometimes expected to play different roles that may make competing demands on them, causing internal conflict and stress that may be resolved via unethical behavior such as lying. For example, professional nurses are taught that patient education and patient advocacy are important aspects of the nursing role. Yet these nursing role expectations may conflict with physicians’ orders, or they may be difficult to implement because of time pressures and paperwork that take nurses away from patients. In a research study, nurses responded to scenarios, some of which placed them in role conflict situations.32 Those nurses who were in role-conflict situations said that they would be more likely to lie by misreporting their behavior on the patient’s chart.

Managers must be aware that conflicting role demands can pressure workers to be dishonest. The best way to avoid this type of dishonesty is to minimize conflicting role demands. Ask your staff to analyze their jobs and to identify sources of conflict that could cause them to feel that they have to lie to you or someone else in order to successfully accomplish some aspect of their job. Then, see if the job can be redesigned to minimize these conflicts.

Roles Can Support Ethical Behavior

Roles can also work to support ethical behavior. For example, whistle-blowing (reporting the misconduct of others) is sometimes prescribed for individuals in certain jobs. This makes a difficult behavior easier to carry out. A survey of internal auditors found that whistle-blowing was more likely when the auditors saw reporting as a prescribed job requirement.33 Therefore, managers should consider the extent to which organizational roles encourage either ethical or unethical behavior. Obviously, those that support and encourage unethical behavior should be changed. Those that encourage ethical behavior (e.g., whistle-blowing) should be bolstered. For example, research has found that although reporting a peer’s misconduct is a distasteful and difficult act, people are more likely to report a peer if doing so is explicitly made a part of their role via an honor code or code of conduct.34 In other words, if their role
requires them to report misconduct when they see it, they’re more likely to do so. Many colleges and universities have honor codes that require students to report cheating that they observe. The requirement makes it easier for the reporter because the behavior becomes a duty, a role responsibility rather than a voluntary ethical act.

Practical Advice for Managers About Roles

The key for managers is that roles influence behavior. Think about the roles people play in your department or organization. What are the implications of their role expectations for ethical and unethical behavior? Do some individuals experience conflicts between their roles? For example, are professionals torn between their organizational and professional roles? Or do employees experience conflicts within a role, like nurses who are supposed to play the conflicting roles of patient advocate and subordinate to the physician? Again, the individuals who hold the jobs are probably the best source of information about their role expectations and potential conflicts. Once you’ve analyzed roles and role conflicts, determine whether jobs need to be altered to reduce conflict. If change isn’t possible, at least you can anticipate the problems that are likely to arise for people in these jobs.

PEOPLE DO WHAT THEY’RE TOLD

In a 60 Minutes segment, Americans working for a Japanese company in the United States reported that their supervisor told them to unpack machine tools manufactured in and shipped from Japan, remove the “Manufactured in Japan” label, change a few things, replace the label with a “Manufactured in the U.S.” label, and recompute the machine tools for shipping. These products were then shipped as if they had been manufactured in the United States to, of all places, the American military (where U.S. manufacture of machine tools was a requirement). An American accountant at the firm finally blew the whistle, but when the workers who had been doing the unpacking and recomputing were asked why they did it, they replied that they were doing what their supervisor had told them to do. One of the men who had attempted to protest was told that he could find another job if he didn’t like it. So, he continued doing what he was told to do.

This is just one of many examples we could cite of workers at all levels doing what they’re told by managers. Participants in the famous 1972 Watergate break-in referred to their unquestioning obedience to superior orders in testimony before the Senate investigating committee, as did Nazi SS officers in war crimes trials and participants in the Iran–Contra affair. Organizations (corporate, political, or military) are authority structures whose members accept the idea that, to be members in good standing, they must give up a certain amount of independence and autonomy. They expect that managers will tell them what to do. That’s the managerial role. They also assume that they should do what’s expected of them. That’s the subordinate role. These assumptions and expectations allow organizations to avoid chaos and function in an orderly fashion. Also, individuals often feel that they owe the organization and their manager their loyalty, further reinforcing the pressure to comply.
The Milgram Experiments

Classic social-psychological studies conducted by Stanley Milgram provide uncomfortable insights into how normal adults behave in authority situations. Most adults will carry out the authority figure’s orders even if these orders are contrary to their personal beliefs about what’s right.

In a number of laboratory experiments, Milgram paid subjects recruited from the New Haven, Connecticut, area to participate in a one-hour study on the effects of punishment on learning. The subject was asked to play “teacher” in a learning experiment; the “learner,” unbeknownst to the teacher/subject, was a member of the research team. The learner was strapped into a chair with an electrode attached to his or her wrist. The teacher/subject was seated at a shock generator and was told to pose questions to the learner. Each time the learner provided an incorrect response to a question, the teacher/subject was told to turn a dial to administer an increasingly severe shock—though in fact no shocks were actually given. As the apparent “shocks” intensified, the learner verbally expressed increasing discomfort, finally screaming and then going silent. During the experiments, many teacher/subjects would question the experimenter and express the desire to stop. The experimenter, dressed in a white lab coat, would provide the following scripted response, “Although the shocks may be painful, there is no permanent tissue damage, so please go on.” If the teacher/subject continued to resist, the experimenter would respond with three successive prods: “The experiment requires that you continue”; “It is absolutely essential that you continue”; “You have no choice, you must go on.” If the teacher continued to resist, the experiment was finally terminated.

To the surprise of Milgram and other observers, about 60 percent of the teacher/subjects in these experiments continued to the end, obeying the authority figure’s instructions despite the conflict they felt and expressed. It’s not that they felt okay about what they were doing. In fact, their emotional appeals to the experimenter suggested that they very much wanted to stop. But most of them didn’t. They may have felt that refusing to continue would challenge the experimenter’s authority, the legitimacy of the experiment, and that they would risk embarrassing themselves. They acted as if they were constrained to do as they were told by the authority figure, rather than as independent adults who could end the experiment at any time. We should also note that teacher/subjects who were at the principled level of cognitive moral development (see Chapter 5) were more likely to challenge the experimenter’s authority and that they were more likely to stop giving the electric shocks.

Obedience to Authority at Work

The obedient behavior seen in the Milgram experiments is similar to behavior observed over and over again in work organizations. The notion of legitimate authority is an accepted tenet of organizational life. In 1968, American military men massacred hundreds of innocent civilians at My Lai, Vietnam. They didn’t ask questions. They did what they were told to do. Twenty years later, Colonel Oliver North, who was tried for arranging the illegal sale of arms to the Nicaraguan contra forces,
claimed that he was only following the orders of his superiors. Individuals who testified to the U.S. Congress about price-fixing practices in the electrical industry were asked why they didn’t report these practices to higher authorities. They responded that they felt they couldn’t because they reported to a prescribed superior only. And Roger Boisjoly, who questioned the safety of the O-rings and who attempted to convince managers to cancel the launch of the space shuttle *Challenger*, never went outside the chain of command to protest.

**Practical Advice for Managers About Obedience to Authority**

Managers must realize the power they hold as legitimate authority figures in work organizations. Old concepts die hard. And even today in team-oriented organizations, most people will do as they’re told. Therefore, authority figures must exhibit ethical behavior, and they must send powerful signals that high ethical standards are expected of everyone. This message should begin at the top of the organization and work its way down through every level. Moreover, when unethical behavior is uncovered, the investigation must consider the explicit or implicit messages being sent by authority figures. Don’t assume that the individual acted alone and without influence. Our tendency is to try to isolate the problem, find the one “culprit” (bad apple), and get on with our lives. But the culprit may have been explicitly or implicitly encouraged by a superior, and this possibility should be taken into account.

**RESPONSIBILITY IS DIFFUSED IN ORGANIZATIONS**

In order for a relationship to exist between what people think is right and what they do, they must feel responsible for the consequences of their actions. Therefore, the sense of personal responsibility is a prerequisite for moral action. If you believe that a decision you yourself made to market a particular product might hurt small children or the environment, you are much more likely to seriously consider the moral implications of the decision. But in organizations, the individual often becomes disconnected from the consequences of his or her actions and doesn’t feel personally responsible for them. Responsibility becomes diffused. No individual feels the need to take responsibility, so in the end, no one does, and unethical behavior is more likely.

There are at least four reasons why individuals may not feel personally responsible for their organizational actions. Responsibility is diffused because it is taken away, shared with others in decision-making groups, obscured by the organizational hierarchy, or diluted by psychological distance to potential victims.

**“Don’t Worry—We’re Taking Care of Everything”**

First, at work, individuals are often encouraged to turn responsibility over to those at higher levels. This is related to our earlier discussion of obedience to authority. But in
this case, the individual is simply told not to worry—that the problem or decision is someone else’s responsibility. For example, an individual who expresses concern about a safety or environmental problem may be told, “We appreciate your concern, but you don’t need to worry about it. We’re taking care of everything.” This type of response absolves the subordinate of feelings of responsibility for the consequences of the organization’s action. Someone, particularly someone at a higher level, has taken the responsibility.

Even if the superiors are highly responsible and highly ethical, however, the act of absolving subordinates of responsibility may have significant implications for their subsequent ethical behavior. Because of the feeling that they must do as they’re told by authority figures, most people feel that they have no choice but to follow superiors’ orders. In this case, the orders are to hand over responsibility for decision making and the individual feels that she or he has no choice but to give it up. If this sort of response becomes routine, individuals will come to believe that it isn’t their responsibility to be on the lookout for ethical violations and that they may stop bringing potential problems to the attention of superiors.

**Diffusing Responsibility in Groups**

Second, important organizational decisions are often made in groups. Therefore, responsibility for the decision becomes diffused among all group members. No single individual feels responsible. Diffusion of responsibility in groups is used to explain the results of classic research on the likelihood that bystanders will help a seizure victim.\(^4\)\(^1\) This research suggests that when others are present, responsibility is diffused among all of the bystanders and individuals are less likely to help.

Diffusion of responsibility also operates in group decision making through a process known as “groupthink”\(^4\)\(^2\) which has been used to explain a number of historical group decision-making disasters such as the Bay of Pigs fiasco in John F. Kennedy’s presidential administration. Groupthink can occur in cohesive groups where group members have a commitment to the group and a strong desire to remain a group member. A major characteristic of groupthink is individual group members’ tendency to conform to the decision they think the majority of group members prefer. Individual group members may find it very difficult to express disagreement and tend to censor themselves even if they disagree with the group decision.

One important symptom of groupthink is the group’s “illusion of morality,” the sense that the group simply wouldn’t do anything wrong. In a classic instructional film on groupthink, a group of managers makes a decision to market a new drug despite disturbing evidence that it may cause dangerous side effects. The illusion of morality is expressed by a group member who states that the company has a well-earned good reputation and would never do anything to hurt its customers.

Clearly, decisions with ethical overtones that are made in a group setting require special attention. The manager must make sure that the ethical implications are identified and carefully analyzed. The group leader should be careful not to state his or her preference up front, because group members will tend to censor their own beliefs to
conform with those of the leader. Other techniques can be used to make sure that alternative points of view are aired. For example, group members can be asked to provide anonymous criticism of the decision being considered. Computer-based group decision support systems often provide such a feature. An individual can be appointed to the role of devil’s advocate, or multiple individuals can be appointed to voice multiple alternative perspectives. It’s easier for these individuals to take an alternative stance when it’s their role to do so. Another alternative is to open the group to outside stakeholders who would come in to present their concerns and perspectives.

**Diffusing Responsibility by Dividing Responsibility**

Third, responsibility in organizations is often so divided that individuals see themselves as only a small cog in a large machine. Or they simply don’t have vital information that would be required to make a good decision. Division of responsibility is essential for the kind of specialization required in modern jobs. But this means that organizational members often do their jobs with blinders on; they see only what’s directly ahead of them, and no one sees (or takes responsibility for) the whole picture.

With regard to information, think about September 11, 2001, and the discussions about whether the government should have been able to “connect the dots” and anticipate the terrorist attacks. Different people in different government agencies had extremely relevant information (about specific terrorists, their activities in the United States such as flight training, and plans to fly planes into other key structures such as the Eiffel Tower). But these agencies were not set up to communicate with each other on a regular basis. In fact, some of them (the CIA and FBI) were explicitly designed to operate independently because of concerns about the power of an integrated agency. So the design of an organization (and decisions about who communicates with whom) influences the nature of information individuals receive in organizations and whether they can be held responsible.

Regarding the Pinto Fires case (Chapters 4 and 5), students often assume that the recall coordinator knew about the crash tests that were conducted while the car was being designed. But, according to Dennis Gioia, recall coordinator at the time, he had no information about those. That information was buried in engineering reports and didn’t surface until much later. So, as recall coordinator, he couldn’t make a decision (whether or not to make the $11 fix) that he knew nothing about.

Scott Peck is a psychiatrist and author of the bestseller *The Road Less Traveled*. He was part of a group dispatched to study the 1968 My Lai massacre in South Vietnam. At My Lai, American troops slaughtered a village of unarmed women, children, and elderly men. The killing took all morning, and only one person, an observant helicopter pilot, tried to stop it. Peck’s interviews with military people revealed a bureaucratic organizational structure that allowed individuals to see only their own narrow part of the problem, thereby allowing them to avoid feelings of responsibility. When he wandered the halls of the Pentagon, questioning those involved in directing the manufacture of napalm and its transportation to Vietnam as bombs, the replies he received were something like the following: “We appreciate your problem and your
concerns, but we are not the department you want. We are in ordnance. We supply the weapons, but we don’t determine how they’re used.” Down the hall, another group suggested that the broad issues were also beyond their purview. “We simply determine how the war will be conducted—not whether it will be conducted.” Peck termed this process “the fragmentation of conscience.” “Any group will remain inevitably potentially conscienceless and evil until such time as each and every individual holds himself or herself directly responsible for the behavior of the whole group—the organism of which he or she is a part. We have not yet begun to arrive at that point.”

Research has documented the diffusion of responsibility process. In a variation on the Milgram obedience-to-authority experiments discussed earlier, the diffusion of responsibility was simulated by dividing the teacher’s role between two people, a “transmitter” and an “executant.” The transmitter would inform the executant when a shock had to be administered and at what level. The experiment found that transmitters were significantly more likely to obey than executants. One can imagine that it was easier for the transmitter to rationalize his or her actions. “I didn’t actually do the harm—someone else did.” This rationalization should become easier and easier, the greater the distance between the individual decision maker and the actual outcome.

**Diffusing Responsibility by Creating Psychological Distance**

Finally, responsibility can be diffused because of the psychological distance between the decision maker and potential victims. When potential victims are psychologically distant or out of sight, it’s more difficult to see oneself as responsible for any negative outcomes. This was exemplified in further variations on the obedience to authority studies in which Milgram varied the closeness of the learner “victim” to the teacher. For example, when the learner was placed in the same room with the teacher, the level of obedience dropped more than 20 percent (to 40 percent). In another variation, when the teacher was asked to physically force the learner’s hand onto the shock plate, the obedience level dropped another 10 percent. In these situations, as psychological distance decreased, the teacher felt personal responsibility more strongly and was less likely to comply with the authority figure’s demands to harm the learner.

In yet another variation on the obedience experiments, Milgram posed as an “ordinary man,” not as a scientist in a white lab coat. When Milgram, dressed as an ordinary man, conducted the experiments, obedience by the subjects dropped from 60 percent to 20 percent. The influence of a uniform (like a lab coat) on obedience is startling. Brigadier General S. L. A. Marshall, a World War II combat historian described how soldiers in battle would almost to a person obey an order from a commanding officer on the field to fire their weapons. When there was no leader present on the field of battle, obedience to fire weapons fell to between 15 and 20 percent. Former U.S. Army Ranger, Lieutenant Colonel Dave Grossman, in his book *The Psychological Cost of Learning to Kill in War and Society*, wrote that to per-
suade soldiers to overcome their consciences and their natural resistance to killing, “normal human beings had to be carefully taught, psychologically conditioned, and commanded by authorities on the battlefield.” In other words, responsibility had be diffused to authority figures and people had to be made to feel psychologically distant from their actions.48

This research suggests that personal responsibility for the outcomes of our organizational decisions will be less clear in situations where the potential harm is far removed or when an authority figure commands us to do something. For example, when the plant is not in our community, but in Mexico or somewhere in Asia, potential negative consequences are more distant; we may feel less personal responsibility, and we may be more willing to make decisions that would harm people. Similarly, when we see a decision as someone else’s responsibility (not my job), we are more likely to go along with decisions that harm others.

**Practical Advice for Managers About Personal Responsibility**

People are much more likely to act ethically if they perceive themselves as responsible for the outcomes of their decisions and actions. That means that they also need to have the relevant information. As a manager, you should make individual responsibility a highly salient issue for yourself and others. Spell out the responsibilities associated with specific positions and hold individuals to those expectations. Also, when a worker brings up an ethical concern, don’t take it completely off his or her hands. And don’t say that it’s someone else’s responsibility. If it becomes necessary to do so, be sure to keep the concerned individual informed of the progress and outcome of the decision.

When it comes to groups, make it clear that every group member will be held personally responsible for the outcome of group decisions. Ask groups to present minority reports or recommendations so that a communication mechanism exists for those who don’t agree with the group. Appoint a devil’s advocate or multiple advocates to question the assumptions of the group and the group’s decision.

Don’t forget to think about the design of your organization. How is the work divided up? Does the division of labor contribute to diffusion of responsibility by keeping people in the dark about relevant facts? Does the organizational structure make people feel like they’re just cogs in a bigger wheel? Encourage information and responsibility sharing across bureaucratic divides.

The current movement to decrease levels in the organizational hierarchy may have a positive side benefit. People find that they have to communicate more laterally—across the organization. Also, with fewer levels, it should become more difficult for organizational members to rationalize that higher ups were responsible. Finally, personal visits to geographically distant work sites and personal contact with customers should decrease psychological distance and increase the manager’s felt responsibility for the outcomes of any decisions or actions that impact people in these locations.
CONCLUSION

You now have some important management concepts that can be applied to the management of ethical and unethical conduct. The remaining challenge is to analyze yourself (or your manager) in relation to these ideas. A common phrase used by today’s managers is “walking the talk.” If your intention is to be an ethical manager, here are some questions to ask yourself to see if you’re “walking your ethical talk.”

AM I “WALKING MY ETHICAL TALK?”

1. Do I talk about the ethical implications of decisions with the people who report to me and with job candidates I’m interested in hiring? With my peers? With my manager?

2. Have I made it clear to the people who report to me that I don’t want to be protected from bad news? Do they understand that they can tell me anything without fear of retribution? Do my reports come to me with ethical concerns?

3. Do I provide guidance on ethical decision making, and have I participated in the ethics training of those who report to me?

4. When evaluating the performance of my staff, do I weight ethical goals at least as highly as performance and quality goals? Do I focus on the means as well as the ends in decision making and performance appraisals?

5. Do I reward ethical conduct and discipline unethical conduct?

6. Do I require my people to take responsibility for their decisions?

7. What are the informal norms in my department? If my employees were asked to list the “rules” of working for me, what would they say? Are any of these problematic if ethical conduct is the goal?

8. If I were to die tomorrow, would the people who report to me say that I had integrity? How would my peers describe me? And what would my manager say?

The answers to these questions should form a sound beginning for understanding and managing ethical behavior in your work group. We’ll discuss the important broader issue of organizational culture in Chapter 9.

DISCUSSION QUESTIONS

For the following questions, if you don’t have work experience, interview someone who does and ask them these questions. Otherwise, ask them of yourself.

1. Have you ever been in a situation, especially a work situation, where the norms supported a particular behavior, ethical or unethical, where you felt pressured to go along? Explain.

2. Have you ever been in a situation where the rewards explicitly or implicitly supported unethical conduct? Explain.
3. Can you think of situations in which unethical behavior was dealt with appropriately (punished justly) or inappropriately? What were the reactions of others in the organization?

4. What do you think would be appropriate punishment for those found guilty of assault or indecent exposure in the Tailhook situation? Why?

5. Have you ever felt obligated to do something you felt was wrong because a person in a position of authority told you to do it?

6. Think about how you might design work to maximize workers’ taking responsibility for the consequences of their actions.

7. Evaluate yourself or a manager you know using the “do you walk your talk” questions above.

CASE

SEARS, ROEBUCK, AND CO.: THE AUTO CENTER SCANDAL

Sears, Roebuck, and Co. began in the late 1800s as a mail-order company that sold farm supplies and other consumer items. Its first retail store opened in the mid-1920s. Responding to changes in American society, such as the move from farms to factories and the presence of the automobile in many homes, hundreds of retail stores opened over the years. The company expanded rapidly, and eventually it diversified to include other businesses: insurance (Allstate Insurance), real estate (Coldwell Banker), securities (Dean Witter Reynolds), and credit cards (Discover). Each of these other businesses became its own division, in addition to the merchandising group which included retail stores, appliances, and auto service centers. By the early 1990s, the company was reporting revenues and earnings in the billions of dollars.

Despite its long history of high earnings and its penetration into the U.S. market, Sears’ retail business began to experience serious financial difficulties in the 1980s. Discount retailers such as Wal-Mart were pulling ahead in market share, leaving Sears lagging. Sears responded by adding non-Sears name brands and an “everyday low price” policy. But despite these efforts, in 1990 Sears reported a 40 percent decline in earnings, with the merchandising group dropping a whopping 60 percent! Cost-cutting measures were planned, including the elimination of jobs and a focus on profits at every level.

In 1991, Sears unveiled a productivity incentive plan to increase profits in its auto centers nationwide. Auto mechanics had traditionally been paid an hourly wage and were expected to meet production quotas. In 1991, the compensation plan was changed to include a commission component. Mechanics were paid a base salary plus a fixed dollar amount for meeting hourly production quotas. Auto service advisors (the counter people who take orders, consult with mechanics, and advise customers) had traditionally been paid a salary. In order to increase sales, however, commissions and product-specific sales quotas were introduced for them as well. For example, a service
advisor might be given the goal of selling a certain number of front-end alignments or brake repairs during each shift.51

In June 1992, the California Department of Consumer Affairs accused Sears, Roebuck, and Co. of violating the state’s Auto Repair Act and sought to revoke the licenses of all Sears auto centers in California. The allegation resulted from an increasing number of consumer complaints and an undercover investigation of brake repairs. Other states quickly followed suit. Essentially, the charges alleged that Sears Auto Centers had been systematically misleading customers and charging them for unnecessary repairs. The California investigation attributed the problems to Sears Auto Centers’ compensation system.52

In response to the charges, Sears CEO and Chairman Edward A. Brennan called a news conference to deny that any fraud had occurred, and he defended Sears’ focus on preventive maintenance for older cars. He admitted to isolated errors, accepted personal responsibility for creating an environment where “mistakes” had occurred, and outlined the actions the company planned to take to resolve the issue. These included:

■ Eliminating the incentive compensation program for service advisors
■ Substituting commissions based on customer satisfaction
■ Eliminating sales quotas for specific parts and repairs
■ Substituting sales volume quotas

According to Brennan, “We have to have some way to measure performance.”53

Sears also introduced “shopping audits” of its auto centers in which employees would pose as customers, and Brennan published a letter of explanation to the company’s customers in the Wall Street Journal and USA Today on June 25, 1992.

Note that the compensation system for mechanics, based on number of tasks performed and parts replaced, was maintained. In the summer of 1992, Chuck Fabbri, a Sears mechanic from California, sent a letter about Sears’ wage policy for mechanics to U.S. Senator Richard Bryan. Fabbri said:

It is my understanding that Sears is attempting to convince your committee that all inspections in their auto centers are now performed by employees who are paid hourly and not on commission. This is not the case. The truth is that the majority of employees performing inspections are still on commission....

The Service Advisors ... sell the repair work to the customer.... The repairs that they sell are not only based on their inspections, but to a larger degree based on the recommendations of mechanics who are on commission....

On January 1, 1991, the mechanics, installers and tire changers had their hourly wages cut to what Sears termed a fixed dollar amount, or FDA per hour which varied depending on the classification. At present the mechanic’s FDA amount is $3.25 which, based on current Sears minimum production quotas, is 17% of my earnings. What this means is that for every hour of work, as defined by Sears, that I complete, I receive $3.25
Sears agreed to a multimillion-dollar settlement with the state of California and the 41 other states that had filed similar charges. The company was placed on three-year probation in California. It also settled a number of consumer class-action suits. In July 1992, the U.S. Congress held hearings on fraud in the auto repair industry. The long-term impact of the scandal is unclear. Sears has now sold off its securities firm, the Discover card, most of its real estate and mortgage business, and 20 percent of Allstate Insurance. At the end of 1992, auto center sales lagged behind prior levels. Also in 1992, Business Week reported that employees in other areas of Sears’ business, such as insurance and appliance sales, were feeling the same kinds of pressures from sales quotas.

Case Questions

1. Identify the ethical issues involved in the case from a consequentialist and deontological perspective (refer to Chapter 4).

2. Identify the management issues involved in the case. For example, think about the case in terms of multiple ethical selves, norms, reward systems, diffusion of responsibility, obedience to authority. What factors contributed the most to the alleged unethical conduct on the part of service advisors and mechanics?

3. How would you evaluate Sears’ response to the allegations and the changes they made? Has Sears resolved its problem? Why or why not?

4. What do you think is the impact of the scandal on Sears’ reputation for quality and service?
5. Respond to Brennan’s comment, “We have to have some way to measure performance.” What can management do to prevent “overselling”? Propose a management plan (including a compensation system) that allows management to measure performance and encourages auto center employees to behave ethically. Be specific.

6. Should anyone be disciplined? If so, who, and when? What should the discipline be?

7. Think more generally about Sears management’s response to the firm’s financial problems. How else could they have increased auto center sales without providing incentives to employees to sell specific products?

**SHORT CASE**

You’ve recently been promoted into the position of marketing manager in the communications division of your company. Your new job involves managing a staff and creating the publications and marketing materials for insurance sales professionals in three regions.

You have met the directors of the three regional sales forces before, and now you ask each one for a meeting to discuss in depth how your team can best meet their needs. Two of the sales directors were very cordial, and each explained what the technical demands of their areas are and how your department can best meet their needs.

However, during your meeting with Bill—the sales director of the third region and one of your firm’s biggest moneymakers—he lays down the law. He says that his area is the largest of the three regions, and it produces significantly more revenue for your company than the other two regions combined. “You and your people need to know that when I say, ‘Jump,’” he says, “they need to ask, ‘How high?’”

In return, he says, he’ll recommend you and your people for every award the company has to offer. In addition, he says he’ll personally give you a monetary bonus, based on your team’s performance, at the end of the year. Although you have never heard of a manager giving someone a bonus out of his own pocket, you suspect that your company would frown on such a practice.

**Case Questions**

1. What are the ethical issues in this case?

2. What are some reasons the decision maker in this case might be inclined to go along? Not go along?

3. If you were the decision maker, how would you handle the situation?

4. Would you report the conversation to your manager? Why or why not?

**NOTES**


4. Ibid.
34. Treviño and Victor. Peer reporting of unethical behavior.
44. Ibid.
47. Milgram. *Obedience to authority*.
51. Santoro, *Sears auto centers*.
52. Kelly, How did Sears blow this gasket?
55. Santoro, *Sears auto centers*.