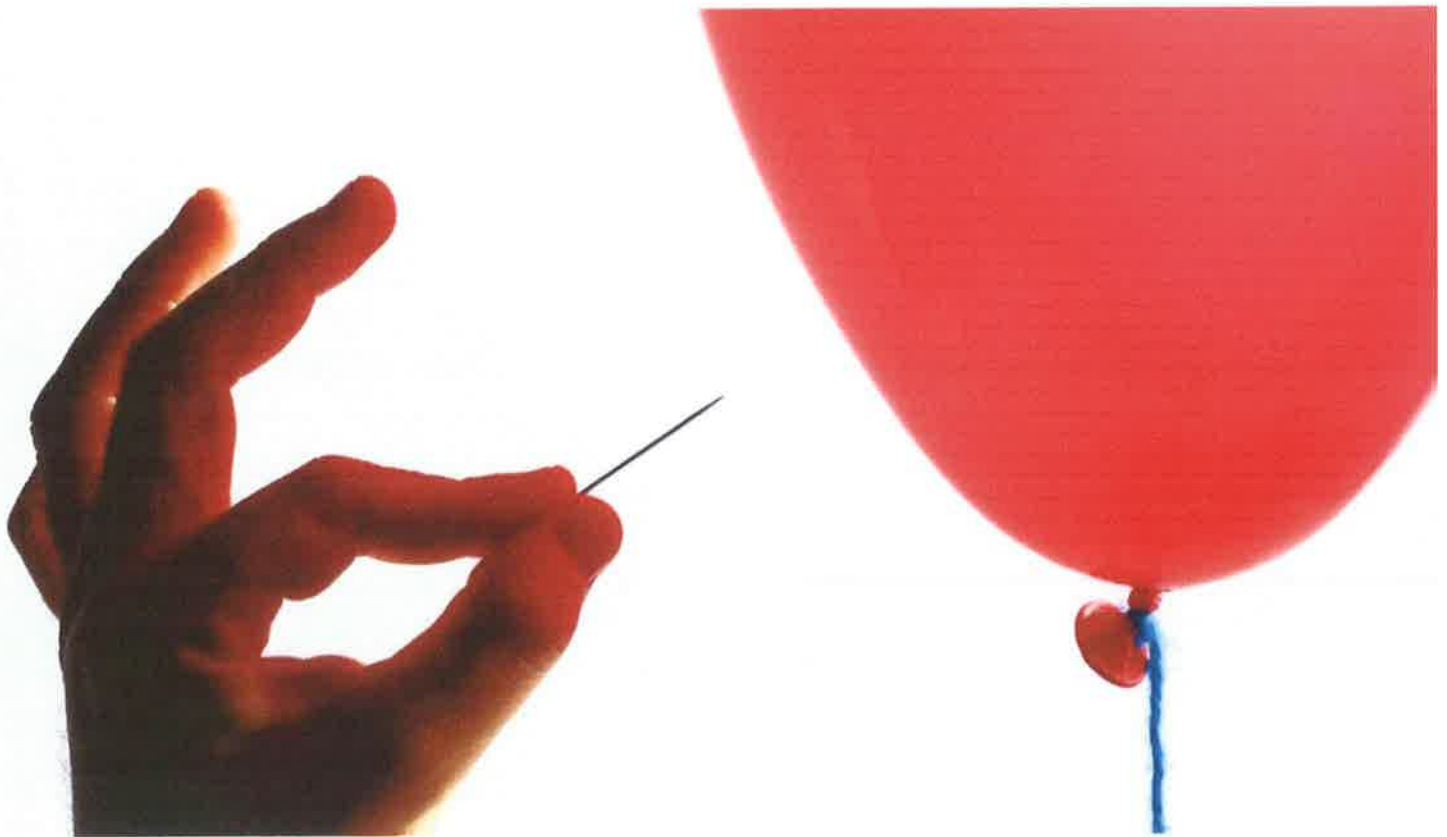


ETHICS

Why Ethical People Make Unethical Choices

by Ron Carucci

DECEMBER 16, 2016



Most companies have ethics and compliance policies that get reviewed and signed annually by all employees. “Employees are charged with conducting their business affairs in accordance with the highest ethical standards,” reads one such example. “Moral as well as legal obligations will be fulfilled in a manner which will reflect pride on the Company’s name.” Of course, that policy comes directly from Enron. Clearly it takes more than a compliance policy or Values Statement to sustain a truly ethical workplace.

Corporate ethical failures have become painfully common, and they aren’t cheap. In the last decade, billions of dollars have been paid in fines by companies charged with ethical breaches. The most recent National Business Ethics Survey indicates progress as leaders make concerted efforts to pay holistic attention to their organization’s systems. But despite progress, 41% of workers reported seeing ethical misconduct in the previous 12 months, and 10% felt organizational

pressure to compromise ethical standards. Wells Fargo's recent debacle cost them \$185 million in fines because 5300 employees opened up more than a million fraudulent accounts. When all is said and done, we'll likely learn that the choices of those employees resulted from deeply systemic issues.

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by Colm Healy and Karen Niven

misconduct. Elizabeth Morrison of New York University, in *Encouraging a Speak Up Culture*, says "You have to confront the two fundamental challenges preventing employees from speaking up. The first is the natural feeling of futility – feeling like speaking up isn't worth the effort or that no one wants to hear it. The second is the natural fear that speaking up will lead to retribution or harsh reactions." A manager's reactions to an employee's concerns sets the tone for whether or not people will raise future issues. If a leader reacts with even the slightest bit of annoyance, they are signaling they don't really want to hear concerns.

There is excessive pressure to reach unrealistic performance targets. Significant research from Harvard Business School suggests unfettered goal setting can encourage people to make compromising choices in order to reach targets, especially if those targets seem unrealistic. Leaders may be inviting people to cheat in two ways. They will cut corners on the way they reach a goal, or they will lie when reporting how much of the goal they actually achieved. Says Lisa Ordonez, Vice Dean and professor at the University of Arizona, "Goals have a strong effect of causing tunnel vision, narrowly focusing people at the expense of seeing much else around them, including the potential consequences of compromised choices made to reach goals." Once people sense the risk of failure, they go into "loss prevention" mode, fearing the loss of job, status, or at-risk incentives. The Veterans Administration learned this lesson the hard way when trying to address the 115-day wait time in their Phoenix hospital. They set a new goal of reducing the wait to 14 days, which resulted in an alleged 24-day wait. But employees said they felt compelled to manipulate performance records to give the appearance of meeting these goals. As many as 40 veterans died waiting for care at the Phoenix center, some more than a year.

Despite good intentions, organizations set themselves up for ethical catastrophes by creating environments in which people feel forced to make choices they could never have imagined. Former Federal Prosecutor Serina Vash says, "When I first began prosecuting corruption, I expected to walk into rooms and find the vilest people. I was shocked to find ordinarily good people I could well have had coffee with that morning. And they were *still good people* who'd made terrible choices."

Here are five ways organizations needlessly provoke good people to make unethical choices.

It is psychologically unsafe to speak up. Despite saying things like, "I have an open door policy," some leadership actions may inhibit the courage needed to raise ethical concerns. Creating a culture in which people freely speak up is vital to ensuring people don't collude with, or incite,

Organizations must ensure people have the resources, timelines, skill and support they need to achieve targets they are given, especially ambitious stretch goals.

Conflicting goals provoke a sense of unfairness. And once a sense of injustice is provoked, the stage is set for compromise. Maureen Ambrose, Mark Seabright, and Marshall Schminke's research on organizational injustice clearly shows a direct correlation between employees' sense of fairness and their conscious choice to sabotage the organization. Consider one organization I worked with whose pursuit of growth created conflicting goals. The head of Supply Chain was given a \$3.5 million capital investment to overhaul a plant to triple its production. Some of that funding came from the 25% budget cut in marketing in the same division. At the same time, Sales divided its quota territories to raise topline performance. The intensity of resentment in the salesforce at having to drive revenues with smaller territories was compounded by having fewer marketing dollars to sell more product. The conflicting goals created excess product capacity that was bottlenecked getting to market. Two years later, the organization was indicted for channel stuffing.

Ethical behavior is not part of routine conversation. Too many leaders assume that talking about ethics is something you do when there's been a scandal, or as part of an organization's compliance program. Everyone gets their annual "ethics flu shot" in the mandatory review of the compliance policy, and all is well for another year. Nick Eply, professor at the University of Chicago, in *Four Myths about Morality and Business*, says, "It's a myth to think 'Everyone is different and everything is relative.' You actually have to *teach* people the relative value of principles relative to choices." Leaders have to infuse everyday activities with ethical considerations and design policies and norms that keep ethics top of mind. Jonathan Haidt, Professor of Business Ethics at NYU and founder of Ethical Systems, says, "It's important to talk about the positive examples of ethical behavior, not just the bad ones. Focusing on the positive reasons you are in business, and reinforcing the good things people do strengthens ethical choices as 'the norm' of the organization."

A positive example isn't being set. Leaders must accept they are held to higher standards than others. They must be extra vigilant about not just their *intentions*, but how it is others might *interpret* their behavior. While they can't control every possible misinterpretation, leaders who know their people well make careful choices in how they react to stressful situations, confront poor performance, how politic they are in the face of controversy, and how receptive they are to bad news. Above all, even in what might be considered the smallest "white lie," ethical leaders are careful not to signal that hypocrisy is ok. As an example, a leader may casually review an employee's presentation and provide feedback like, "I think we need to take these two slides out – that data is inflammatory and we don't want to derail the ultimate outcome which is to convince the budget committee to give us the resources we want." While the leader might presume he has acted in the best interest of the group – going to bat for resources they need- the person building the presentation has just been told, "We can't tell the entire truth because it could prevent us from getting what we want." Leaders must put themselves in the shoes of those they lead to see what unintended messages they may be sending.

Organizations who don't want to find themselves on a front-page scandal must scrutinize their actions to far greater degrees than they may have realized. In an age of corporate mistrust, creating ethical workplaces takes more than compliance programs. It requires ongoing intensified effort to make the highest ethical standards the norm, and ruthless intolerance of anything less.