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Conscience and Corporate Culture

by

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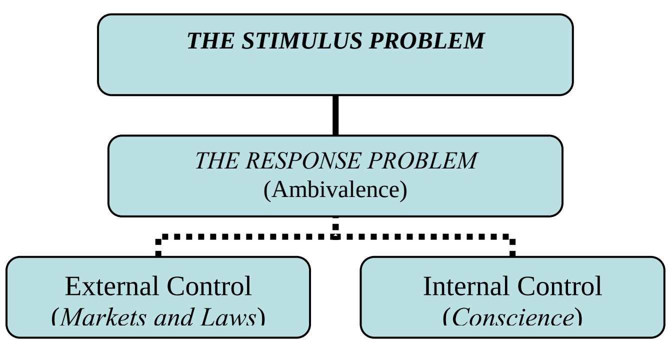
There is a certain ambivalence about business ethics in American society. We begin with *skepticism* about the moral credentials of the profit-driven market system. As Irving Kristol wrote: "Two cheers for capitalism!" In business, as in campaign politics, we witness too often *an unbalanced pursuit of goals and objectives*. Over the last thirty-five years we have seen this pathology at work from Watergate to WorldCom. We have seen it in the career crashes of inside-traders like Ivan Boesky, in the corporate crashes of Enron and Andersen, and in the literal crashes of the World Trade Center and the space shuttles *Challenger* and *Columbia*. Call this the *stimulus* problem: a business system that lends itself to certain kinds of excess.

The *ambivalence* becomes evident when we recognize *our reluctance to prescribe the most obvious cure for the stimulus problem: the use of moral criteria (beyond economic and political competition) to balance managerial (and political) decision making.* Both our laws and our social norms caution managers and boards of directors (as agents of the corporation) against thinking that strays too far from a strict duty of care to shareholders. Perhaps we fear that incompetence might parade as virtue, or that ethical judgment might mean moral fanaticism. Either way, we seem to resist our most obvious alternative to amorality. This could be called the *response problem*.



Is there a way to overcome – or at least mitigate – this ambivalence with conscientious decision making, especially in the wake of the corporate scandals and the Sarbanes-Oxley Act? Yes, but only if we can achieve in some measure a shared moral consciousness, trusting that we can tell integrity from its counterfeits -- and wisdom from misguided zeal.

There is a common pattern underlying the tragic events mentioned at the outset (the stimulus problem) and we need to develop an ethical response to that pattern. This is the theme of the chapters in *Part I* of the book. The chapters in *Part II* take up the *moral agenda* that this understanding presents (a) to practicing executives, and (b) to business educators in the academy.

Part I – Conscience: Response to a Pathology

In *Chapter 1*, *Teleopathy*, I argue that the pattern behind the tragic events is this: Take an organizational culture that is *fixated* on certain goals *whatever the cost*; combine it with the group's *rationalization* of its behavior in the name of those goals, and repeat this behavior again and again until the protesting consciences of the participants become detached, anesthetized. These are the symptoms of a pathology that can infect our most treasured institutions, including not only those in the private and public sectors, but also the moral-cultural sectors of religion, the media, and education.

- We see these symptoms in the *fanatical* behavior of terrorists;
- But we also see these symptoms in the *obsessive* behavior of corporate executives;
- And in the *driven* behavior of NASA decision makers.

Fixation. *Rationalization*. *Detachment*. Symptoms of a hazard to which both individuals and groups can succumb. Objectives become idols; obstacles become threats; second-thoughts are not allowed -- and eventually, second thoughts disappear.

In *Chapter 2*, I discuss the pathology in cultural terms, offering a construct that will help relate it to its antidote, corporate conscience. The idea of a "mindset" is introduced to provide some structure to the conversation about corporate culture.

Despite the behavior of individual decision makers, the larger reality is a cultural reality, and this viewpoint has been characteristic of diagnosis after diagnosis of corporate wrongdoing in recent years. Warren Bennis, Professor of Management at the University of Southern California wrote in the *New York Times* (2/17/2002) that:

> Mr. Lay's failing is not simply his myopia or cupidity or incompetence. It is his inability to create a company culture *open to reality*, one that does not discourage managers from delivering bad news. No organization can be honest with the public if it is not honest with itself. [Emphasis added.]

Others have commented in more detail on the Enron culture. Malcolm Gladwell in an article in the *New Yorker* entitled "The Talent Myth" observed that:

> This "talent mind-set" is the new orthodoxy of American management. It is the intellectual justification for why such a high premium is placed on degrees from first-tier business schools, and why the compensation

> packages for top executives have become so lavish. In the modern corporation, *the system is considered only as strong as its stars*, and, in the past few years, this message has been preached by consultants and management gurus all over the world. None, however, have spread the word quite so ardently as McKinsey, and, of all its clients, one firm took the talent mind-set closest to heart. . . *The company, of course, was Enron*. [Emphasis added.]

In *Chapters 3 and 4*, I describe the role played by moral reflection (conscience) in the lives of each of us as individuals and suggest that it may offer helpful clues for understanding the corresponding role to be played by conscience in the culture of an organization. Conscience is our primary check on the unbalanced pursuit of goals and purposes. And *corporate* conscience is not in the end a matter of *external* compliance or competitive advantage; it is a matter of *internal* self-assessment and improvement. Internal moral compasses are much more reliable than external sanctions – legal or economic.

Part II – The Moral Agenda of Leadership

In *Part II*, the focus shifts from conceptual questions like "What?" and "Why?" to operational questions like "Where?" and "How?" It is the *leader* who must ultimately make ethical awareness "happen" when the values and behavior of the *organization* are at stake. The leader is the principal architect of corporate conscience and the one who must manage the stimulus-response paradox. He or she is the person most responsible for giving substance to the moral agenda of the organized group.[1] That agenda includes three broad imperatives: *orienting, institutionalizing,* and *sustaining* conscience in the corporate culture. These imperatives are taken up in the second half of the book.

Chapter 5 explains that *orienting* means giving direction, setting a course. "Getting there from here," however, is impossible if "here" is a mystery. Leaders need to appreciate where their organizations are, ethically, to begin with. Orienting (or reorienting) shared values in a culture is like orienting (or reorienting) corporate strategic planning. A thoughtful teacher once observed some years ago that "the question that has not been asked cannot be answered." As the orientation of a culture becomes clear in relation to a company's current position, however, questions about the *legitimacy* of that orientation may arise. What we called in *Part I* the "response problem" may be felt as an operating challenge requiring special attention.

In *Chapter 6*, I show how an organization can align its ethical aspirations with its incentive and reward systems. *Institutionalizing* means making the company's value orientation part of its operating consciousness. This process includes communication, motivation, and discipline, relating ethical values to operations at every turn. It also means reinforcing them with symbols, ceremonies, and celebrations. A conundrum in this domain may be that conventional management incentives and rewards often appeal more to self-interest than to other motives.

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[1] This theme is addressed by Bill George in his recent book *Authentic Leadership* (Jossey-Bass 2003).

Chapter 7 takes up the third item on the agenda, extending and *sustaining* shared ethical values over time. This means continually renewing corporate conscience in the face of a kind of “entropy.” As with individual character, organizational character can weaken with the passage of time and under pressures to compromise. Like physical processes in nature, social processes such as orienting and institutionalizing values have a tendency to wear down. This means ongoing attention not only to the next generation of leadership, but to the forces in the outside social environment that influence the values of the company. A potential barrier appears in this context: Can corporate conscience be sustained without “imposing values” on others?

Finally, in *Chapter 8,* I discuss educational support structures for the moral agenda of management, what I call the “three academies.” The *first academy*, the modern business school, must come to terms affirmatively with the classical question “Can ethics be taught?” if it is to avoid defaulting on the moral formation of future leaders. I argue that the three imperatives of corporate leadership (orienting, institutionalizing, and sustaining shared values) must be mirrored in business schools themselves: imperatives to *initiate*, *integrate*, and *continue* ethics education.

The *second academy*, corporate management education programs, must also address the moral agenda — both in general and as it relates to the institutionalization of company-specific values. The corporation *is* a business school in many ways, and needs to incorporate ethics education just as the first academy does.

The *third academy* is comprised of associations of distinguished leaders that oversee and set global standards for corporate ethics. I have in mind the *Caux Round Table* and other organizations that offer transcultural ethical principles and a self-assessment and improvement tool analogous to the Baldrige process for quality management. Such associations are as essential to professional management as are their counterparts in medicine and law. The moral agenda of the corporation requires scrutiny and stewardship from the generation of leaders most experienced with its possibilities and challenges.

It is my hope that this book will serve as a platform for communication between doers and thinkers on a subject that is as difficult as it is important. We must find ways to discourage moral blindness and thoughtlessness in the competitive environment of corporate decision making. The stakes are high, for defaulting on this moral agenda could mean, and arguably should mean, the erosion of the corporation itself, as we know it. As my former Harvard colleague Kenneth Andrews put it nearly three decades ago, “If organizations cannot be made moral, the future of capitalism will be unattractive — to all of us and especially to those young people whose talents we need.” We should perhaps ask no *more* of corporations than we ask of ourselves morally, but neither should we ask *less*.