

## **Business Ethics - The Road to Excellence**

### **An Oregon Executive Forum presentation by Michael Josephson**

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The cynicism that in the past has been reserved for lawyers is showing up in wider and wider circles after the events of the last year: corporate malfeasance, sexual misconduct in the church. It seems that everywhere you look, there's more evidence of unethical behavior.

Nearly every human being desires to be good, to do good, and to be thought of as good. When asked, everyone says they want to be remembered as a good husband, a good mother, a good friend, a good person. Even our elaborate rationalizations for our behavior, when it's inappropriate or downright unethical, are evidence of this desire to be thought of as good.

At the same time, we want to do well and we want to be recognized for it with promotions, raises, awards, all the formal and informal pats on the back. Sadly, many of us have come to believe we must sacrifice goodness in order to be successful, even when we know that once lost, that goodness is hard to retrieve.

Whenever people try to get what they want, ethics are in play. In today's difficult business climate, stronger ethics among leaders and workers are more important than ever. What personal tools does it take to be a strong ethical leader? How can such leaders train others to be more receptive to the issue?

Michael Josephson argues that it is not only possible to balance these tendencies but essential that we do so, not so much for success in business but success in our lives.

Michael Josephson is founder and president of the Josephson Institute of Ethics in Marina del Rey, CA. He is a frequent guest on network television and has been profiled in the major news media, including Time, The Wall Street Journal, and USA Today. He is the author of *You Don't Have To Be Sick To Get Better*,

*Making Ethical Decisions*, and co-author of *Parenting To Build Character in Your Teen*.

## **Business Ethics: The Road to Excellence**

When Michael Josephson went to law school, he wanted to do good. He was inspired in his choice of profession by such figures as Mahatma Gandhi and Abraham Lincoln. Yet when he graduated three years later, he no longer wanted primarily to do good. He had a family, a house, and debt. Instead, he wanted to do well. Josephson's own story encapsulates the tensions inherent in today's workplace, a tension between the human desire to do good, to make a contribution to the well-being of others, and the equally human desire-and need-to do well, to succeed financially.

Shortly after he graduated from law school, in the aftermath of Watergate, two pivotal things happened in Josephson's life: he was asked to teach a course in ethics and his first child was born. Walking a colicky baby, he realized that he could not teach one set of ethics to his students and another set to his son. He realized that children are stakeholders in their parents' ethics, that among the real sufferers of corporate malfeasance and political scandal are the children and families of the unethical because they experience a shame and humiliation that is not of their own making.

In this light, Josephson cautions against trying to make ethical behavior appealing through practical or pragmatic arguments. First, they don't work. Being ethical doesn't necessarily lead to business success. Unethical people can be very successful, especially in the short-run. But when we don't earn the respect of others, it shows up in our personal lives: divorce, problems with drugs and alcohol, kids who are out of control, and sometimes even jail. And what good is success if it comes at the price of our reputation as a good and decent person?

### **Ethics are tied directly to who we are.**

The strongest motivation to act ethically comes from our relationships with our families and friends. It is hard for most people to establish a reliable

commitment to ethics in the abstract but it is not hard for most of us to make an enduring commitment to a life that benefits the emotional health of our families.

If it were true that good ethics equaled success, only the stupid would be unethical. The reality is far different. Sometimes if you do the right thing, you lose the big deal, you lose your job, you go bankrupt. Ethics are hard when there is loss or debt. And although ethical companies generally do quite well over the long term, they can suffer in the short run. The reasons for supporting, encouraging, even demanding ethical behavior from others and ourselves are far more personal.

The major payoffs for ethical behavior are self-respect and the esteem of others. For Josephson, the most important reason to be concerned about ethics in business is not about its impact on the bottom line but its impact on our own reputation and credibility and whether we bring honor or dishonor to our family. Living by a strong code of ethics increases our chances of living a good and decent life.

### **From success to significance**

There also comes a time in the life of most high achievers when it becomes important to move beyond **success**, i.e., accomplishing our career, financial, and lifestyle goals, to **significance**, i.e., having a durable positive impact on individuals, on our company, on society. No matter what our job, no matter the size of our paycheck or the size of our responsibility, each of us can choose to use every single relationship, every encounter with a customer, a vendor, a colleague, even people on the street, to create a significant impact, to make things better in a meaningful way.

For Josephson, the challenge of today's workplace is to create an environment that fosters significance as well as success. Again, he says this is not to directly impact the bottom line. Companies shouldn't do good or encourage their employees to do good to make more profits, although that might happen, but because it raises morale and creates stability and respect. And while it may be harder to be successful initially if you're ethical, it is easier to sustain ethical

success than success that is won by immoral behavior.

### **Ethics is not about fixing something that is broken.**

Although it might be easy to assume this in today's corporate world where any discussion of ethics can provoke a self-defensive response, ethics is instead a dimension of business and organizational life that can-and should-be better. It's about living the values we say we espouse. It isn't a question of right rhetoric- Enron had an excellent written code of ethics-it's a question of walking the talk.

Companies need to create an environment that teaches and nurtures constructive dissent and honor. How different things might have been for Enron if employees who knew what was going on had written to their leaders and said, "We don't approve." While one dissenter might have been ineffective (and lost her job), there is serious strength in numbers. What would have happened if 50 had spoken up? Sometimes, says Josephson, it just takes a shift in focus to change the chemistry, and to change everything. "Will it work?" is a success-based question. "Is it right?" is an ethical question.

It's important to remember, says Josephson, that society isn't out there somewhere. We are society. There may be collective tendencies and trends, but we are still responsible for what we do and don't do individually. "Everyone else is doing it" has never been a valid justification for personal misconduct, as any parent knows.

"But if I do that, I won't be successful." Josephson's response? "So what? What message do you want to send your employees, your colleagues, your kids?" In a recent national survey, 74% of high school students said they had cheated on an exam in the last year. Why? Because they aren't getting enough messages from parents, from teachers, from their society, that this isn't okay.

### **Intention makes a huge difference in how our actions are perceived.**

A company that invests substantially in safety equipment for its employees in order to lower its liability risk sends a clear message to those employees that money matters more than human lives. We don't tend to give anybody moral

credit for what we perceive as a bad intention. Yet companies seem afraid to take advantage of this kind of solid relationship with and among employees, hence, the all-too-common disparaging of such “soft” intentions.

This is also true in the current focus of corporate philanthropy, which has shifted away from altruism into an overt “what’s-in-it-for-me” stance. And this responsibility lies not only with the donors but with the askers, who are all too eager to appeal, not to the company’s empathy or sympathy for their clientele, but to a sort of advertising negotiation: how big a prominence the company name will receive. Bad idea, says Josephson, because this atrophies our instinct to help others. The corporation’s more idealistic inclination to give back to the community is lost. And giving becomes an extension of marketing and sales (often physically handled by that department). Philanthropy becomes an investment, not a gift.

### **Can organizations nurture a sense of personal worth and worthiness without undermining productivity and profitability?**

Josephson says yes, if ethical values are truly lived within the company and in all aspects of business, from hiring to finances, from production to customer relations.

Most workplaces don’t live the values they claim. Why? Because both leaders and employees are acting out of self-interest, not social interest. For example, it is not ethical to say nothing when you get a reference call on an employee you’ve fired for misconduct or poor performance. Or to announce that he or she moved on to pursue other interests when in reality you let them go. It is the HR person’s self-interest perhaps (avoiding conflict) or the company’s self-interest (a supposed protection from the possibility of lawsuit) but it is not in the social interest. In fact, the reverse is true. Honest, full information about former employees is supported by the law to help companies make honest decisions.

And if you do make a serious mistake and get sued and lose the suit? Then you accept those consequences. Being ethical means being accountable, and being accountable, Josephson says, means you “suck it up” and pay the costs. It

means not falling into “hijacker mentality,” where you settle even when you’re right. Winning is not the only reason to fight. If you acquiesce, you give up your principles.

And the lawsuit issue around reference honesty-and it is remote, says Lawyer Josephson-can be resolved with a waiver. When a person applies for the job, ask them to sign a waiver saying that everyone is authorized to say everything they know. And when they leave, ask them to sign a second waiver that says your company can tell the truth about them if asked.

## **What companies can do to create a more ethical workplace**

### ***1. Review recruiting, hiring, and promotion criteria to see what messages you are sending about your values.***

Here’s a prime Josephson value-oriented principle: *Hire for character, train for skills*. This touches on two important dimensions of goodness: **competence** (our effectiveness) and **character** (our ethical framework). Both are critical to business, for character without competence will lead to bankruptcy, and competence without character will lead to disgrace. But how can you hire for character if the information isn’t available from the references you call?

Josephson also says that we have a detrimental tendency to focus too much on skills and too little on character in the people we hire and retain. To shift that, when hiring, ask each reference for more references. People don’t escape their reputations. Ask directly about their values and principles. Conversely, no mention of the company’s values to interviewees sends a clear message of how little they matter. A second idea is to put new hires on probation and let them know that concrete evidence of them living their principles will be the focus.



## ***2. Review personnel practices for integrity.***

Evaluate for character on performance reviews. Employees will meet the expectations and disciplines you set up. What employees know is being evaluated is what they strive to accomplish and incorporate. When there's no mention of values, these ethical principles are seen as irrelevant or cosmetic, not as meaningful guides for behavior. In addition, realize that unrealistic performance expectations encourage unethical behavior, pressuring people to find short cuts to do what is not really possible otherwise.

Some questions to consider: Does your company discriminate unfairly by rewarding only those who are productive? Is there compensation equity between new hires and existing employees? (If market conditions mean that you must pay more for a new hire with comparable skills, do current employees at that level also get a raise?) Nothing can sour a company's morale faster than perceived inequalities in salary or benefits.

Are there discipline inconsistencies? Are employees at lower levels fired for inappropriate behavior while higher-ups get a slap on the wrist for grosser infractions? Josephson suggests that the reverse should be true. The more responsibility a person has within the company, the greater the impact of their misconduct and the heavier the consequence should be.

### **3. Review the business plan and budgeting process for vulnerabilities.**

Unethical behavior can show up in the smallest things: asking for more money than your department needs in fear that you won't get enough, spending your end-of-the-year remainder on things you may not need to justify the next year's budget, padding expense accounts, misusing sick days, etc.

### **4. Other areas of ethical review**

- Review marketing and sales practices for over-promising, intentional underpricing, and other dishonest practices.
- Review your fulfillment practices under pressure-what short cuts are taken and under what circumstances?
- Review competitive practices for fairness and respect-how fairly do you talk about the competition?
- Review community service, support and philanthropy practices to see if you are doing enough.

***To build a culture of quality and character leaders must consistently **teach, enforce, advocate** and **model** high standards of quality and ethics. -Michael Josephson***

### **Teach, Enforce, Advocate, Model**

As Josephson is fond of saying, "When it comes to ethics, you don't have to be sick to get better." In fact, it's easier to make a good organization better than to make a bad organization good. Creating and maintaining an ethical company is an inside job, and it must come from the top.

Leaders must set and articulate clear expectations of behavior. While displaying posters that proclaim company values is a great idea, posters alone can't do it. In addition, all policies need to be explained and reviewed regularly, whether at staff meetings or company retreats. Equally important is enforcement: There must be clear consequences for ethical breeches and clear rewards for ethical alignment. And even small things matter. If punctuality is important but late arrival is continually overlooked, it can quickly become the norm. Whatever you allow, you encourage. The moment you say, "X is not worth calling him on," X

becomes allowed.

Leaders must also continually advocate ethical behavior and attitudes, overtly discussing them, demonstrating them, and then modeling them in their own behaviors. If the annual meeting doesn't tell stockholders what the company's values are, if it doesn't acknowledge the fulfillment of those values in its annual report, how will those stockholders know what's important? The more people know you care about things, the more those things happen.

**It takes courage to close the gap between our stated values and our operational values.**

Our **stated values** are what we say we value. Our **operational values** are what we actually value as revealed by our actions and how we resolve conflicts among competing values. It takes honesty and courage to live our values. Consistency between our stated and operational values is a matter of integrity. When we're out of alignment, we can change our behavior to make it consistent with our stated values or we can restate our values from what we think should be true to what really is true for us. In many conversations, values and ethics get a bad rap. Josephson insists that you can be realistic and have values and that you can be idealistic and not naïve.

Once you define the game, there is a moral obligation to play the game as defined. Yet ethics is bigger than just compliance. It's about treating people right, even those whose own behavior is questionable; it's about treating unfair people fairly, dishonest people honestly. The fact that life is not fair doesn't absolve us of the responsibility to make the world more fair.

***Ethics means treating everyone with respect not because of who they are but because of who you are. -Michael Josephson***

Audits of organizations by the Josephson Institute consistently reveal unethical trends in most companies. In a recent tabulation, they found that at least one-third of those employees surveyed said these things of their organization:

- Most managers "kill the messenger." (It's hard to speak up in this

atmosphere.)

- Distortion and concealment of data is common. (Good decision-making suffers!)
- There is a lack of confidence in the accuracy of internal reporting.
- Top management is considered to be expedient rather than principled.
- Employees do not know written policies. This may well mean that employees cannot identify company values.)
- The operative value is “If it’s legal, it’s ethical.” (Leaders are suspending their own moral judgement and leaving it to the lawyers, who are not-and are not hired to be-moral advisors.)
- Employees deceive in order to accomplish goals.
- People who walk the line of propriety but produce results get promoted. (You must decide to factor in ethical considerations in some way into the evaluation process if you want employees to value them too. “If you don’t count it, it doesn’t count.”)

*Your life is the sum result of all the choices you make, both consciously and subconsciously. If you can control the process of choosing, you can take control of all aspects of your life. You can find the freedom that comes from being in charge of yourself.---*  
**U.S. Senator Robert F. Bennett**

### **All of ethics is about making choices.**

The decisions, the choices we make directly affect the lives of people and their perceptions of our company. And they also will be part of our legacy to our own children. For Josephson, “I had no choice” is always a lie. Perhaps the choice is not an easy one. It may even be having to choose the lesser of two evils. But there is always a choice.

### **Good decisions are both ethical and effective:**

1. Choices matter because they have consequences.
2. Choices can set in motion events that affect people and alter the future in

serious and lasting ways.

3. Choices should be made thoughtfully because we are morally responsible for the consequences of our choices.
4. We have the power to choose what we say (our words), what we do (our actions), and what we think (our attitudes).
5. Choosing not to choose is a choice; choosing not to act is a choice.
6. Even when we don't like our alternatives, we have a choice.
7. Though we don't always have the power to do what we want to do, we always have the power to do what we can.
8. We will always be held accountable for our choices.

Every decision has consequences. The greater the potential consequences, the higher the stakes. The higher the stakes, the more need there is for careful decision-making.

And good decisions require discernment and discipline, two critical aspects of good decisions. Discernment is our ability to evaluate facts and potential consequences from a practical and moral perspective. Discipline is the strength of character to do what should be done even when it is costly or uncomfortable. Defects in either aspect, knowing what to do and then doing it, can lead to bad decisions.

### **Ethics is not an option. It's a ground rule.**

Making ethical decisions is about choosing among options according to ethical principles. It is choosing to do what is right, whether it is convenient or not.

Ethical decisions do all four of the following:

- Honor corporate values.
- Honor core ethical values, which Josephson enumerates as trustworthiness, respect, responsibility, caring, fairness, and citizenship.
- Strengthen credibility and engender trust.
- Comply with laws and regulations.

The ethical person evaluates and chooses among alternatives in a manner

consistent with those six ethical principles. He eliminates clearly unethical options. In choosing among the remaining alternatives, he remembers that though there is often more than one ethical response, some are better than others. When ethical principles conflict (e.g., it seems unkind to be honest) and there is no clear right response, we must make a choice as to which principle to honor.

There are also three domains of decision-making: the pragmatic, the preferential, and the ethical. The pragmatic asks, "Will it work?" The preferential asks, "Is this what I want?" The ethical asks, "Is it right?" Many companies mix these three domains into one values statement, giving a message that these domains can be traded off against each other. Instead, ethical conflicts are best resolved by use of a decision-making strategy that helps us:

- See the moral implications of our choices.
- Sort out the competing claims.
- Evaluate the long-term consequences of each option.

### **The good news about ethical business practices**

Good things tend to happen to good people and to good businesses. If you're ethical, people trust you more. There is a simple-and passive-way to do that: Don't do anything wrong. But you can accelerate trust with others when you:

- Handle crises well.
- Admit when you're wrong.
- Are as attentive after you've made the sale as before.
- Act and advise in ways that benefit customers even when it doesn't directly benefit you.
- Do something you're not required to do, something over and above your agreement with the customer.
- Always demonstrate professional pride in your work.

Why are ethics and the trust they build good for business?

- **They give you a competitive edge:** Customers and good employees prefer to work with those they trust.
- **They give you credibility:** People readily believe those they trust.
- **They make you more efficient:** Trust makes decision-making faster and more economical.
- **They boost morale:** People in a culture that generates trust feel better about their jobs and themselves.
- **They enhance loyalty:** Trust generates the loyalty of customers and employees.

All of these translate into assets for companies and organizations. What's more, distrust is a huge liability. Just look at the distrust that Enron and World.com and others have bred into the current stock market.

So what does it take to be an ethical leader and an ethical employee? It takes **principles**, so that decisions are governed by ethical values such as honesty, respect, responsibility, and fairness. It takes **trust** in honest reporting, an environment where dissent is possible, where all team players are trustworthy and trusted. It takes **courage** so that leaders and workers alike demonstrate integrity and do the right thing even when it is difficult or costly. And while these may not guarantee a fabulous annual report or a sharp rise in stock price, they guarantee self-respect and the respect of others.

**There is a big difference between what you have a right to do and what is right to do. -**

**Michael Josephson**