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FROM BHOPAL TO BOESKY: NEW RESEARCH PERSPECTIVES ON CORPORATE ETHICS AND MANAGERIAL VALUES

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Those two words--"Bhopal" and "Boesky"--have won a permanent niche in the business lexicon. "Bhopal" stands for an industrial tragedy of almost unimaginable proportions: over 2,500 deaths, 300,000 people requiring medical treatment, 40,000 permanently sickened, and hundreds of children orphaned. "Boesky" stands for conspiratorial scheming, lying, cheating, stealing, and what appears to be unbounded greed.

Unfortunately, Bhopal and Boesky do not stand alone as exemplars of questionable business behavior. E. F. Hutton pleaded guilty to defrauding banks by using other people's money without paying for it. In some circles, that would be called stealing. Bank of Boston and twenty-one other banks acknowledged taking part in a massive money-laundering scheme which probably helped criminals hide illicit revenues from gambling and drugs. General Electric and General Dynamics admitted they deliberately overcharged the government for work done. A. H. Robins sold IUDs that were alleged to have caused the death of some women and sickened thousands of others. Manville Corporation endangered the lives of its asbestos workers by not giving sufficient warning of the risks entailed. The list could go on and on, if time permitted.

This kind of behavior is not limited to business. All one has to do is to look around. Ethical dilemmas and scandals abound. Only last week, a U. S. senator withdrew from the presidential race after admitting that he plagiarized others' speeches. On the campus, we call that stealing other people's ideas. One of the senator's opponents--another prominent politician who aspires to be President--acknowledged that his campaign staff had leaked the damaging evidence to the press. At the same lofty levels of government, trusted White House officials have freely admitted lying to congressional committees and destroying evidence of their misdeeds, while concurrently they conspired to evade several laws.

Readers of the sports pages know that baseball players use corked bats to get longer hits, while pitchers try to foil them by using balls they scuff with sandpaper hidden in their gloves. Professional football and basketball players live in a world riddled with illicit drug use. High school and college players accept large illegal payments and so-called "scholarships" while coaches look the other way.

As anyone knows who has followed the PTL scandal, Jim and Tammy Bakker preached the gospel about driving the money changers from the temple--and then we learned they apparently had not driven them much further than PTL's multimillion dollar religious theme park. I would not want to take bets on the winner of an invidious display contest between Tammy Bakker and Imelda Marcos.

Nowhere do ethical puzzles bristle with greater threat to our very concept of humanity than in the health-care field--from when life should be ended to when it begins, from who should receive organ transplants to who should give them, from how a new life should be conceived to who is a "true" parent, and from a physician's or nurse's obligation to treat the incurably ill to the moment when such treatment might itself threaten to end the health-worker's life.

So, this morning as we consider some of the ethical problems of business, it is worth remembering that no single sector of society has a corner on either ethical or unethical behavior.

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You may have noticed that business ethics has become one of America's growth industries. Scratch a business professor and find an ethics expert. If your professional organization is short on programming for the year, it's always worth a call to your local campus where you will find a ready supply of speakers with notes poised to tell you what is wrong with business and how business can be brought into line. A growing number of them will spend the day or week (or several months, if you insist) helping you to develop an ethics training program--but this comes with a somewhat heftier price tag. You know--"The more you are willing to pay, the cleaner we can make your company." It's a new-found way to measure business's seriousness about cleaning up its act.

My approach this morning is different. Although I intend to do a little bit of preaching before I am through, this is, after all, not a prayer breakfast. In fact, most of what I want to tell you this morning is about research done by other people.[1] Taken as a whole, these studies represent leading-edge

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1. For detailed information on most of this research, see William C. Frederick

research in this field. I want to emphasize that they are empirical studies, not armchair theorizing. In other words, these scholars have gone into the field where the action is; they have observed, questioned, recorded, measured, calculated, and analyzed business behavior. Each has used the most sophisticated, reliable, and valid methods available for investigations of this kind. As I talk about these studies, you will be hearing the authentic voices of authoritative experts. I frankly think you will find it a real eye-opener (which we all need at this hour) and more than just a little bit surprising. When you leave, I believe you will know some things about ethics that are worth knowing.

The basic points I shall cover are these three, based on this research:

* The causes of unethical business behavior.
* Company conditions that encourage corporate white-collar crime.
* The effectiveness of proposed reforms intended to curb unethical and illegal business practices.

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Most accounts of unethical business behavior lead us to believe that the root of the problem is a failure of personal character. We tend to ask, "What is it about Ivan Boesky's personality and background that led him astray? How

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(ed.), Research in Corporate Social Performance and Policy: Empirical Studies of Business Ethics and Values, volume 9, (Greenwich, Connecticut: JAI Press, forthcoming 1987). Research discussed in this presentation that is not included in this volume is noted at appropriate points.

can we account for a David Levine or those E. F. Hutton managers or the Yuppie Five--all enjoying six-figure affluence well before their overreaching began--if not by greed, selfishness, and an insatiable ego?" These popular explanations of ethical failure find reinforcement in management theory which tells us that <u>the personal values of corporate managers</u> play a central role in making business decisions.

So, a thoughtful person might well conclude that unethical behavior stems from bad personal values. Correct those values, or root them out of the company ("get rid of the bad apples"), and the problem is solved. But research tells another story.

A colleague and I tracked the personal values of a large group of corporate managers to see what those values are. We wondered if they could be linked to the policies of business firms faced with such typically controversial decisions as plant closings, foreign bank loans, and diversification of capital investments from steel to oil and gas. These are the issues that have been on the public-protest agenda in Pittsburgh for the past several years. Corporations have repeatedly been charged with unethical and socially irresponsible behavior for taking these actions. Surely, here would be an opportunity to demonstrate how the personal values of managers differ from the personal values of their critics, thus uncovering the so-called "bad" or unethical values that are supposed to drive the managerial cadre.

But the empirical evidence revealed another side. As shown by this exhibit [see Figure 1, next page], the personal values of managers <u>do</u> differ from the values of their union and activist critics. (Incidentally, the community activists in this study were <u>not</u> the members of a Pittsburgh-based

FIGURE 1
(Frederick & Weber, 1987)

TOP-RATED VALUES

Managers	Union	Activists
Self-respect	Family Security	Honest
Honest	Freedom	Helpful
Family Security	Responsible	Equality
Responsible	Honest	Courageous
Freedom	Happiness	A World at Peace
Capable	Self-respect	Family Security
Ambitious	Courageous	Self-respect

LOWEST-RATED VALUE

Obedient	Social Recognition	Pleasure

activist group formerly known as the Denominational Ministry Strategy (DMS), which now calls itself DMX.) Managers rank Self-respect first; union members believe Family Security should come first; while the activists put Honest at the top of their personal value scale. Of the three values held in common--Self-respect, Family Security, and Honest--each group ranks them differently. Whereas the activists believe in Equality, Helpfulness, and being Courageous, corporate managers subscribe to being Capable and Ambitious. Interestingly, managers and unionists share more values in common--five out of the top seven--than do the two groups who have been critical of business performance.

The primary value orientation of each group [see Figure 2, next page] also reveals a difference. Managers tend to favor Personal Achievement, union members Personal Maturity, and activists Personal Comfort. We also see an expected managerial focus on Self-respect, a union emphasis on Comfort, and the activists' orientation toward Equality.

In spite of these value differences, a remarkable consensus emerged when considering the totality of values that were included in the study. Of the thirty-six values we examined, about one-third were closely shared, including Family Security and Self-respect; the importance of being Honest, Forgiving, Responsible, and Broadminded; and fostering True Friendship, Freedom, and Inner Harmony. And each group's vision of the kind of world that is valued turned out to be essentially the same, as shown in Figure 2.

Two common beliefs are jeopardized by this research on the personal values of managers. First, the values held most dear by managers and by some of their most persistent critics show so much overlap and consensus that the observed differences are not big enough to separate the groups on issues of

FIGURE 2
(Frederick & Weber, 1987)

PRIMARY VALUE ORIENTATION

MANAGERS

* Personal Achievement
* Self-respect
* A Secure, Humane World

UNION

* Personal Maturity
* Comfort
* A Secure, Peaceful World

ACTIVISTS

* Personal Comfort
* Equality
* A Secure, Humane World

public and corporate policy. The second myth debunked by our research is that managers' personal values play a direct role in shaping their business decisions and policies. We could find no logical connection between the professed values of managers and the range of issues that so often separate corporations from their social critics, such as plant closings, foreign investment, and diversification of capital from one industry to another.[2]

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Faced with these unexpected findings, it occurred to us that perhaps we had the relationship between values and policies reversed. Perhaps the causal flow runs from the business policies to the values used by the decision makers. In other words, certain business needs might activate the values that can produce the desired policy decision.

Support for this notion comes from a 1975 study made by Professor George England of the personal values of managers [see Figure 3, next page]. "Operative Values" are those most likely to influence a manager's decisions. This exhibit shows that these values are company-oriented and company-supportive. "Adopted Values" also cause a manager to act in the company's behalf; Professor England discovered that managers adopt and act on such values even though they may not personally accept them as guides in their own lives. In other words, a manager may not prefer to interact with "craftsmen"

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2. See William C. Frederick and James Weber, "The Values of Corporate Managers and Their Critics: An Empirical Description and Normative Implications" in the JAI volume mentioned in footnote 1 above.

FIGURE 3

VALUES OF U. S. MANAGERS
(George W. England, 1975)

OPERATIVE VALUES	INTENDED VALUES
Customers	Me
My company	Trust
Organizational efficiency	Loyalty
Ability	My co-workers
Achievement	Honor
High productivity	
ADOPTED VALUES	**WEAK VALUES**
Craftsmen	Tolerance
Stockholders	Obedience
Aggressiveness	Equality
White collar employees	Compassion
Change	Security
Property	Autonomy

as a group, especially if they are unionized, but will do so if the job calls for it. As we say in the trade, "They go with the territory." So the values that are going to be used by managers on the job are the ones shown on the left side of this exhibit. The "Intended Values" of managers may well be blocked from expression by the company's needs and objectives; or in some cases, they may be allowed or encouraged to guide company decisions. It will depend largely on what is required to help the company attain its objectives. "Weak Values," on the other hand, seldom find expression on the job. Although a manager might arrive at work holding these Intended Values and Weak Values, he or she would normally not be able to bring them to bear on job decisions. In other words, the company context seemed to be shaping the use of managers' values, rather than the other way around.[3]

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That means that a company's internal climate can have a powerful influence on a manager's thinking and decision-making approach. Is it possible to identify <u>the ethical climate</u> that is present in a company? And is the ethical climate of a business firm different from the ethical climate of other kinds of organizations? The answer to both these questions turned out to be "yes."

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3. See George W. England, <u>The Manager and His Values</u>, Ballinger, 1975. For England's now-classic initial report on this type of research, see George W. England, "Personal Value Systems of American Managers," <u>Academy of Management Journal</u>, March 1967, pp. 53-68.

Two business school researchers at the University of Nebraska found distinctive ethical climates when they observed business firms, military organizations, and academic institutions. Their system for classifying ethical climates had a total of nine possibilities. The climate could emphasize the person, the company, or the society; and it could favor self-centered reasoning, group-centered reasoning, or broad-principled reasoning [see Figure 4, next page]. An ethical climate might be composed of any combination of these nine basic, generic components.

The dominant traits of the ethical climate in business were found to be represented by three of these cells: a self-centered interest in economic efficiency, a company-centered focus on following organizational rules, and a tendency to look to the law and professional codes as a societal justification for the company's actions. Beyond this research finding are two further interpretive inferences that I should like to add. First of all, we know from other research that most companies place high importance on having its employees promote the company's interest and being a good team player, so there will be an organizational tendency to incorporate these two components into the firm's ethical climate. Secondly, the individual employee soon learns that his or her own on-the-job self interest is best promoted by being perceived as economically efficient, a good team player, working for the company's interest, playing by the organization's rules, and not getting the company in legal trouble. Adding these two interpretive possibilities to the research findings suggests the major components that will be found in a business firm's ethical climate.

Left out of this business ethical climate--or greatly downplayed--are

FIGURE 4

COMPONENTS OF ORGANIZATIONAL ETHICAL CLIMATES
(Victor & Nigh, 1987)

	PERSON	COMPANY	SOCIETY
SELF-CENTERED REASONING	Self Interest***	Company Interest**	Economic Efficiency Interest*
GROUP-CENTERED REASONING	Friendship	Team Play**	Social Responsibility
PRINCIPLED REASONING	Personal Morality	Organizational Rules*	Law or Professional Code*

* Dominant components of business ethical climate
** Derivative components of business ethical climate
*** Inferential component of business ethical climate

Friendship, Personal Morality, and Social Responsibility. In other words, an employee or manager with a strong sense of personal morality, social responsibility, or a caring attitude toward others will not be encouraged to express these values in making business decisions. Nor will such an organization be inclined to recruit this kind of individual, because he or she would not fit into the company's ethical climate. As a result, the company increases its chances of taking actions considered by the public to be morally objectionable, socially irresponsible, and uncaring about others.[4]

* * *

Given this strong grip of a company's culture on its employees, how in fact do people in business cope with a moral conflict on the job? When you have an employee who is to be let go in six months because of a reduction in force, do you tell the employee now or wait until a day or so before giving out the pink slip? Or when a valued and talented employee who works for you is qualified for a better job at higher pay that opens up in another division of the company, do you block that move? When others are padding their expense reports, do you do so, too?

One researcher at Clarkson University set out to discover what kind of moral reasoning is used in such situations. She knew that moral development

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4. For research on ethical climates, see Bart Victor and John B. Cullen, "A Theory and Measure of Ethical Climate in Organizations" in the JAI volume mentioned in footnote 1 above. Care should be taken to distinguish their research findings from my interpretive comments.

theory holds that men and women use different ways of thinking their way through ethical issues, and she tested that theory in a Fortune-500 corporation. According to accepted theory, men's concept of morality and justice is based on the performance of duties and responsibilities; they take a principled approach to a moral dilemma. Adherence to principle is uppermost in their minds. Women, on the other hand, are theorized to base their moral reasoning on empathetic caring for others. Organizational principles and rules are less important to them than the pragmatic, immediate needs of people. For women, morality and justice are caring. For men, morality is acting out well-defined duties and obligations and adhering to such principles.

But the research demonstrated that these differences do not hold up at work. Men and women managers and business professionals used the same kind of moral reasoning when faced with a work-related ethical dilemma. Uppermost was the belief that everyone should adhere to organizational rules and should carry out one's expected work duties and obligations. Moral reasoning that involves caring for others was only rarely found. In fact, the only manager whose moral reasoning was predominantly based on a caring principle was a man, not a woman as established theory had predicted.

This researcher also discovered that fully one-third of the corporate managers in the study claimed never to have faced a moral dilemma at work. Given the nature of their jobs, this claim was difficult to square with the facts. On further probing, she concluded that some of these see-no-evil managers defined "good" as following the company's rules and "bad" as breaking them; so, as long as they were good team players and obeyed the rules, there could be no moral conflict for them. Others realized that the company discouraged its employees to raise on-the-job moral issues, so they did not "see" them when they occurred. Still others appeared to believe that moral responsibility either had no place at work or was someone else's responsibility.

Once again, empirical research--as contrasted with theory or common-sense intuition--tells us that the values, inclinations, and even the moral reasoning used by people in business are shaped and largely determined by the company, its culture, its objectives, and the general climate that prevails there.[5]

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All of these findings confirm earlier research [see Figure 5, next page] that unethical business behavior is encouraged by the example set by one's organizational superiors ("If he does it, why shouldn't I?"); by a company's ethical policy or lack of it ("If the company doesn't care, why should I?"); by general practices in the industry ("If my competitors are doing it, I have to do it, too."); and by the actions of one's colleagues ("If they are raking in the gravy, I'd be a fool not to do so."). Less important, according to this study, were society's moral climate and one's personal financial needs.[6]

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5. See Robbin Derry, "Moral Reasoning in Work-Related Conflicts" in the JAI volume mentioned in footnote 1 above. For moral development theory, see Lawrence Kohlberg, <u>The Philosophy of Moral Development</u>, Harper & Row, 1981; and Carol Gilligan, <u>In a Different Voice</u>, Cambridge, Mass.: Harvard University Press, 1982.

6. See Steven N. Brenner and Earl A. Molander, "Is the Ethics of Business

FIGURE 5

BRENNER-MOLANDER SURVEY OF 1,200 MANAGERS
(1977)

REASON FOR BEING UNETHICAL	RANK
Behavior of superiors	1
Formal policy or lack thereof	2
Industry ethical climate	3
Behavior of one's equals in the company	4
Society's moral climate	5
One's personal financial needs	6

Changing?" Harvard Business Review, January-February 1977.

* * *

To this point, we have seen that an entire stream of research leaves little doubt that popular explanations of unethical business practices are misleading at best and wrong at worst. The culprit is not personal values but the values embedded in an organization's culture, not a failure of character but a flawed ethical climate, not just a selfish grab for a larger share of life's goodies but a subtly-conditioned urge to promote a company's goals regardless of the negative consequences that may result. The problem is compounded when a manager or an employee has so completely identified his or her own personal interests with those of the company that personal values and company values become one and the same thing. At that point, moral reasoning and company reasoning have merged into a single phenomenon. Such an "ethical automaton" or "ethical eunuch" then not only acts <u>for the company</u> but believes that these very acts <u>are</u> what is meant by "ethical."

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Let me show you how that works itself out in the arena of corporate white-collar crime.

White-collar crime costs business <u>and</u> society billions of dollars each year. Some of these crimes are directed <u>against</u> business firms--for example, embezzling, padding expense accounts, and conflict-of-interest relationships. These crimes tend to reward the individual lawbreaker at the expense of the company. But many white-collar crimes are committed <u>on behalf of</u> the company, thereby helping or supporting the firm--for example, price fixing, evasion of pollution regulations, or advertisements that misrepresent the product and mislead customers. This type of white-collar crime is called "organizational crime."

Two business school faculty members at Penn State wanted to know if there is some connection between these pro-business organizational crimes and the characteristics of the law-breaking companies. In other words, do certain kinds of companies tend to break the law more often than other kinds of companies? Is there something about the company itself, rather than its individual managers and employees, that is responsible for corporate crime?

They began their study with the idea that a company's organizational rules and regular routines--what they called its standard operating procedures (SOPs)--could either encourage or discourage law-breaking. A company's customary routines might actually mandate illegal behavior or simply permit it to occur without penalty to the employees involved (or perhaps even rewarding them for breaking the law). This might occur, for example, when the marketing division secretly agrees with competitors to fix prices. Or a business firm might knowingly fail to establish SOPs that could curb or prevent criminal behavior by its employees. For example, the company might simply look the other way when some of its employees do some "midnight dumping" of hazardous wastes. In other words, you look for the kind of SOPs a company has, if you want to know whether it is liable to break the law. The focus here is on the company's procedures and rules, rather than the individuals taking the actions.

So, under what conditions do you find companies with SOPs that either directly encourage illegal behavior or that, by their absence, fail to deter crime? The researchers studied the record of 434 Fortune-500 corporations from 1975 and 1976 and found that 42 percent of them had broken the law. "Law breaking" in this study meant that enforcement actions, including sanctions, were taken against the companies by one or more of twenty-four federal agencies. (Companies that broke the law and had no formal action taken against them were not counted, nor did the study include state and local law-breaking, so the reported figures are quite conservative.)

They hypothesized that these illegal acts were tied to the companies' financial performance, as well as to the complexity of their operations. The more complex the company, the less likely that its preventive SOPs could cover the large range of legally questionable situations that might arise. And companies feeling a financial squeeze might have SOPs that permit or encourage illegal practices, while not instituting SOPs that act to curb law-breaking.

What they found is shown in this exhibit [see Figure 6, next page]. The chances of corporate crime increase under these four conditions:

* Lower profits of the company

  (In order to improve profits, managers would be more likely to institute SOPs that permit illegal acts, or fail to establish SOPs that prevent law-breaking.)

* Larger size of the company

  (Big companies are more complex. SOPs that can effectively cover the entire operation are more difficult to establish and police.)

* Higher growth rate of the company

  (Companies that grow at a fast rate may outrun their older SOPs, thus increasing the likelihood that legal controls will be weakened.)

FIGURE 6

RELATIONSHIP BETWEEN SELECTED CORPORATE CONDITIONS AND ILLEGAL ACTIONS
(Cochran & Nigh, 1987)

THE INCIDENCE OF ILLEGAL CORPORATE ACTIONS IS ASSOCIATED POSITIVELY WITH:

* Lower profits of the company
* Larger size of the company
* Higher growth rate of the company
* Greater product diversity of the company

* Greater product diversity of the company

  (The more diverse the company, the harder it is to establish SOPs that work the same for everyone. Communication is more difficult.)

They also expected that illegal behavior would increase as <u>industry</u> profits increased, as a company's liquidity deteriorated, and in companies with extensive multinational operations. But they found no such relationships.

Their findings are not entirely unexpected. It is true that the research does not address some important questions, such as the possibility that some companies are high-profit performers <u>because</u> they break the law and get away with it. Other companies may be too small to be a target of the enforcement machinery. Nevertheless, the research tells us something we need to know. There <u>is</u> a link between certain corporate conditions and the prevalence of organizational crime.[7]

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The last two research projects that I want to tell you about ask if unethical and illegal business actions can be reduced by reforming the corporate system. One study looked at proposed reforms of the corporation's board of directors. The other project studied the impact of corporate codes

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7. See Philip L. Cochran and Douglas Nigh, "Illegal Corporate Behavior and the Question of Moral Agency: An Empirical Investigation," in the JAI volume mentioned in footnote 1 above.

of ethics. The results in both cases are quite surprising.

When corporations came under strong attack in the 1960s and 1970s for being socially irresponsible and unethical, it was believed that the way to improve social performance was to reform the board of directors. Legal scholars and other critics pointed out that most boards had become isolated and insulated from social forces because they were dominated by company officers, had no minorities or women as members, and were typically peopled by old WASPish men who held their lucrative posts at the pleasure of the board chairman. A better check-and-balance system was needed. The solution was to increase the size of the board, bring more outsiders (especially minorities and women) to the board, put outsiders on the nominating and audit committees, and beef up the number of lawyers who served as board members.

A pair of business school researchers decided to see how well these reforms had fared. Had the reforms, in fact, reduced the incidence of unethical and illegal corporate behavior? Does the structure of the board of directors really make any difference?

The answer is: Yes, it does matter but not as predicted by the reformers. By looking at the record of legal actions taken against 100 Fortune-500 corporations, they found that [see Figure 7, next page]:

* Illegal behavior actually increases as the board grows in size. A possible explanation is that large boards are unlikely to be involved in deep discussion of policy decisions, and therefore a larger board does not act as a check on the decisions of top officers of the company.
* Putting more outsiders on the board is associated with an

FIGURE 7

RELATION OF BOARD REFORMS AND INCIDENCE OF CORPORATE ILLEGAL BEHAVIOR
(Gautschi & Jones, 1987)

PROPOSED REFORM	RESEARCH FINDING
* Larger boards	More law-breaking
* More outside board members	More law-breaking
* More outsiders on audit committee	More law-breaking
* More lawyers on the board	Less law-breaking

KEY FINDING OF THE RESEARCH:

* More inside company officers on the executive committee of the board	More law-breaking

increase, not a decrease, in corporate illegal behavior. Using outsiders to monitor the practices of companies does not seem to be working.

* Not even appointing more outside board members to the key auditing committee of the board reduces the incidence of law-breaking. The watchdog function at this most sensitive post does not produce the needed results.

* The only reform that seems to have some effect on corporate law-breaking is to increase the number of attorneys serving as board members. Their expert knowledge and legal judgment, when applied at policy levels in board deliberations, apparently can moderate the amount of law-breaking that occurs.

But perhaps the most important finding of this research is that a higher incidence of corporate crime is associated with a higher number of inside directors on the company's executive committee. It is the executive committee that acts for the entire board between meetings. It may not matter that a board has more outsiders, more women, or more minorities, if crucial decision-making powers are simultaneously delegated to an insider-dominated executive committee. The inference is obvious: Putting more outsiders on the executive committee may reduce law-breaking by corporations.

This research also seems to be saying something (although this is my interpretation rather than that of the researchers) that is consistent with the previously expressed idea that the core elements of a company's culture are implicated in the commission of corporate crimes and other unethical actions.

If structural reforms of a company, however well intentioned and planned, do not influence the company's ethical climate, its embedded organizational values, or the single-minded drive of its managers to achieve organizational goals regardless of the consequences for others or for the law, such reforms will amount to little of lasting significance.[8]

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Of all the research stories I have to tell this morning, I've left the most interesting one to be told last. It also may be the most depressing report for anyone interested in improving business's ethical performance.

A researcher at Washington State University wanted to know whether corporate codes of ethics can be an effective self-regulator of business behavior. If so, there might be less reliance on government regulations to police the private sector.

She wrote to 485 Fortune-500 manufacturing corporations and asked for a copy of their code of ethical conduct. It was already known that many U. S. companies, during the mid-1970s, either initiated or rewrote codes in the aftermath of Watergate and the revelation of questionable political payments made both here and in foreign countries. One-third of the companies did not respond, about 100 said they had no code, and just over 200 corporations sent her a copy.

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8. See Frederick H. Gautschi, III and Thomas M. Jones, "Illegal Corporate Behavior and Corporate Board Structure" in the JAI volume mentioned in footnote 1 above.

She then matched these 200 companies with the number of civil and administrative actions taken against them by four federal government agencies: the Food and Drug Administration, the Environmental Protection Agency, and Consumer Product Safety Commission, and the National Highway Traffic Safety Administration.

Her first finding [see Figure 8, next page] was that the codes were designed to protect the company more than the public. The great majority of the codes cautioned employees and managers to protect the company in dealings with U. S. and foreign governments and with customers and suppliers. Three of every four codes had provisions regarding conflict-of-interest relationships between employees and other parties. A similar proportion focused on the importance of honest internal record keeping. Both of these provisions protect the company against harmful actions that might be taken by its employees and others.

Considerably less frequently mentioned were actions that might be harmful to the public. These results suggest that it might be naive to rely on corporate codes of ethics to curb antisocial business practices. Rather, the codes tend to check antibusiness behavior.

But what about the connection between the codes and illegal corporate practices? Do codes help?

Using several sophisticated statistical techniques, this researcher could find no association between the existence of a code and a reduction in law-breaking by the companies. In fact, just the opposite relationship was revealed: Having a code is linked to more, not fewer, violations. Then, realizing that law-breakers might adopt a code after being caught (thereby

FIGURE 8

SELECTED CONTENT OF CORPORATE CODES OF ETHICS
(Mathews, 1987)

BEHAVIOR PROTECTING THE COMPANY

Provision	Included	Not Included
Relations with U. S. government	87%	13%
Relations with customers/suppliers	86%	14%
Relations with foreign governments	73%	27%
Questionable payments	85%	15%

BEHAVIOR HARMING THE COMPANY

Provision	Included	Not Included
Conflict of interest	75%	25%
Integrity of books and records	75%	25%
Divulging trade secrets	44%	56%
Insider trading information	43%	57%

BEHAVIOR PROTECTING OR NOT HARMING THE PUBLIC

Provision	Included	Not Included
Product safety	9%	91%
Physical environment	13%	87%
Product quality	21%	79%
Consumer relations	23%	77%
Civic and community affairs	25%	75%
Health and safety of employees	37%	63%

making it <u>appear</u> that codes and law-breaking are linked), she analyzed her data to see if that had happened. It hadn't; the finding was that violations do <u>not</u> lead corporations to adopt codes of ethics.

Those companies whose codes put an emphasis on having employees sign compliance ("read-and-sign") affidavits or that spoke about "employee integrity" were found to be greater violators than others. The same thing proved to be true of codes that waxed eloquent about "the reputation of the corporation"--those companies were more likely to be law-breakers.

Overall, she found that codes of ethics have less influence on law-breaking than the type of industry involved and the size of the company. The bigger the company, the more violations reported. She also found that higher violations were associated with three industries--food; drugs; and medical instruments and supplies, all regulated by the FDA. This relationship may mean only that the FDA is a more vigorous protector of the public than the other three regulatory agencies.[9]

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And so, having begun with Bhopal and Boesky, let me end by drawing the lesson that this body of research teaches about those two ethical lapses. No Bhopal can occur, nor Boesky operate, unless the organization that surrounds the actors permits or encourages their ethical excesses. The corruption symbolized by these twin tragedies is rooted more deeply within the respective

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9. See M. Cash Mathews, "Codes of Ethics: Organizational Behavior and Misbehavior" in the JAI volume mentioned in footnote 1 above.

organizational systems than in the psyches and egos of Union Carbide employees or Ivan Boesky. It is possible for an entire system to go to sleep. A company can be so focused on its own internal goals that managers and employees lose sight of broader and more profound ethical principles. When we face ethical uncertainty, what we need is an ethical compass. And if we are to get our bearings, that ethical compass must point us toward the fundamental truths that reside outside of ourselves, in the broader realm of humanity to which all of us belong.

I think this point can be made clearer if, in these final words, I turn away from scientific research to the realm of artistic expression.

* * *

In his 1947 play, All My Sons, Arthur Miller tells the story of Joe Keller, the owner of a manufacturing plant that produced aircraft engines for the Air Force during the Second World War. Joe had two sons, Larry whose plane went down during the war and Chris who as an officer had seen his own men and his friends killed. The plot turns upon the fact that Joe had allowed cracked engine-heads to leave his shop, resulting in the death of twenty-one pilots. When the authorities came to arrest him, he had put the blame on his partner, who had gone to jail. When Chris confronts his father after the war, he says: [Author's note: I am condensing the dialogue here, for time's sake]

CHRIS. How could you do that? How? Dad, you killed twenty-one men! You killed them, you murdered them.

KELLER. I didn't kill anybody!

CHRIS. Then explain it to me. What did you do? I want to know what you did.

You had a hundred and twenty cracked engine-heads, now what did you do?

KELLER. You're a boy, what could I do! I'm in business, a man is in business; a hundred and twenty cracked, you're out of business; you got a process, the process don't work, you're out of business; you don't know how to operate, your stuff is no good; they close you up, they tear up your contracts, what the hell's it to them? You lay forty years into a business and they knock you out in five minutes, what could I do, let them take forty years, let them take my life away? . . . . Chris, I did it for you, it was a chance and I took it for you. I'm sixty-one years old, when would I have another chance to make something for you? Sixty-one years old you don't get another chance, do ya? For you, a business for you!

CHRIS. For me! Where do you live, where have you come from? For me!--I was dying every day and you were killing my boys and you did it for me? What the hell do you think I was thinking of, the goddam business? Is that as far as your mind can see, the business? What is that, the world--the business? Don't you have a country? Don't you live in the world? What the hell are you? You're not even an animal, no animal kills his own, what are you?

[And then in the play's final scene, the last letter that Larry wrote to his fiance is shown to Joe. Larry tells his fiance that he has read in the newspaper about his father's role in selling the cracked engine-heads to the Air Force, and he says he is going out on a mission in a few minutes from which he will never return. The letter says, "They'll probably report me missing. . . . I tell you, Ann, if I had him here now I could kill him." Joe reads the letter and says he is going to get his jacket and then go to the police station to turn himself in.]

MOTHER [to Joe]. You're so foolish. Larry was your son, too, wasn't he? You know he'd never tell you to do this.

KELLER [looking at the letter in his hand]. Then what is this if it isn't telling me? Sure, he was my son. But I think to him they were all my sons. And I guess they were, I guess they were. I'll be right down.

CHRIS [to his mother, who is begging him to stop Joe]. Then what was Larry to you? A stone that fell in the water? It's not enough for him to be sorry. Larry didn't kill himself for you and Dad to be sorry.

MOTHER. What more can we be!

CHRIS. You can be better! Once and for all you can know there's a universe of people outside and you're responsible to it, and unless you know that, you threw away your son because that's why he died.

[A shot rings out from upstairs. Joe Keller, who finally realized that there was something bigger than his business, something bigger than his sons, something bigger than his family, had put a bullet through his head.]

* * *

Chris's message rustles through the abandoned huts in Bhopal . . . it echoes through the canyons of Wall Street . . . if you listen carefully later this morning, you can hear it in the quiet of your own office . . . and each of us can hear it in the depths of our own individual conscience. The task is to build bridges from our cloistered existence within our own organizations outward to the broader reaches of humankind. In that direction, I believe, lies a brighter prospect for improving ethical performance in business.