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Business Roundtable
Institute for Corporate Ethics

Avoiding Ethical Danger Zones

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Featuring a *Thought Leader Commentary™*
with Anne M. Mulcahy, Chairman and CEO, Xerox Corporation

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FOREWORD

The Business Roundtable Institute for Corporate Ethics is an independent entity established in partnership with Business Roundtable—an association of chief executive officers of leading corporations with a combined workforce of more than 10 million employees and $4 trillion in annual revenues—and leading academics from America's best business schools. The Institute brings together leaders from business and academia to fulfill its mission to renew and enhance the link between ethical behavior and business practice through executive education programs, practitioner-focused research and outreach.

Institute *Bridge Papers™* unite the best thinking of academic and corporate leaders with tomorrow's business practices. *Bridge Papers™* convey concepts from leading edge academic research in the field of business ethics in a format that today's managers can integrate into their daily business decision making.

Avoiding Ethical Danger Zones is an Institute **Bridge Paper ™** based on the research of David Messick and Max Bazerman that was originally featured in their article, "Ethical Leadership and the Psychology of Decision Making" published in *Sloan Management Review* (37, 9-22). Messick and Bazerman's research empowers executives to make better ethical decisions by giving them tools to recognize unconscious decision-making biases.

The accompanying interview with Anne M. Mulcahy, chairman of the board and chief executive officer of Xerox Corporation, takes up some of the key issues in *Avoiding Ethical Danger Zones*. From the perspective of a leading chief executive, the interview addresses difficult topics such as diversity in the workplace, handling conflicts of interest, and the importance of communicating company values.

INTRODUCTION

Today's business leaders face a number of complex ethical challenges that impact themselves, their businesses, and other stakeholders. Often unconsciously, decisions are made using underlying principles that predispose decision makers to biases and errors in judgment. By recognizing these challenges, business decision makers can learn to avoid ethical danger zones and become more effective leaders within their organizations.

We can learn to make improved ethical decisions by employing the same learning tools that we use to improve general decision making. Working toward this end, the Business Roundtable Institute for Corporate Ethics brings together leaders from business and academia to fulfill its mission to renew and enhance the link between ethical behavior and business practice.

To develop a framework to improve their ethical decision making, managers can focus on three key areas: quality, breadth, and honesty.

Quality: Vigorously seeking and accurately considering all potentially relevant information about a decision's consequences.

Breadth: Taking into account possible outcomes for all stakeholders, even those who are less obvious.

Honesty: Maintaining integrity in all aspects of business, including decision making.

QUALITY

To better the quality of decisions that executives make they must collect and consider all potentially meaningful facts regarding a decision's consequences. This process requires recognizing potential risks, making accurate judgments of the risks associated with our strategies, and being aware of the psychological biases of decision making. Managers must not ignore or suppress information to make the decision making process more manageable. A few underlying principles impacting the quality of a decision include ethnocentrism, stereotypes and faulty perceptions of causes.

Ethnocentrism and Stereotypes

With globalization managers are increasingly exposed to a growing variety of peoples and cultures. Given this global context, it is more important than ever that managers be tolerant of differences in custom, practice, and style. Like many other countries, the United States prohibits discrimination in employment with regard to social or personal information such as religion, race, gender, and age. Managers face many opportunities with the increased diversity of the business environment, which, in turn, presents greater opportunity for inappropriate behavior related to personal differences. Incorrect beliefs about social groups markedly increase these dangers. Managers, like other individuals, are likely to hold flawed assumptions about other groups.[1]

Ethnocentrism is the view that "our" ways of doing things are ordinary and better and that other approaches are in some way inferior. One's own group or society seems normal, while another might seem peculiar. The implicit notion here is that what is normal for us is preferable in general and what is unfamiliar is less good. In an ethnocentric view, our group's views and values become the bar against which others are measured. The same actions by one's own group and by another group might be described using language that is descriptively comparable, yet, nevertheless, implies a negative bias toward the other. We describe ourselves as being devoted, diligent, and proud; others we may describe as being cliquish, unwavering, and egotistical.

A manager's ethnocentrism amplifies differences between groups and cultures, increasing the risk that a manager will fail to make decisions that are ethically sound. Ethnocentrism is as much about giving special assistance to "us," or "in-group favoritism," as it is about treating other groups negatively.[2] For example, in mortgage lending, more minority than white applicants are turned down for loans, even after accounting for income differences, job stability, credit records, and other creditworthiness indicators. Mortgage lenders, however, claim to be equitable across racial groups. In-group favoritism suggests that the variance may not be due to cases involving the denial of qualified minority applications, so much as in the approval of loans to questionably qualified white applicants. Thus, for lenders seeking to ensure equitable treatment, a review of minority loan applications that had been rejected would not detect the problem because the pool of qualified minorities whose applications are rejected is not the site of discrimination. Instead, the lender must review questionably qualified white applications to see if in-group favoritism

exists. If it does, this will be indicated by a greater percentage of questionably qualified white applicants receiving loans than their minority counterparts with similar qualifications. Managers would improve the quality of decision-making by using this example to consider potentially faulty assumptions in their own organizations and industries.

Besides the idea that "our" group is superior to others, people often have

As with ethnocentrism, managers are unconsciously influenced by stereotypes, which has the added danger of convincing them that their prejudices regarding other groups are factual.

unconscious prejudices, or stereotypes, about people who differ from us with regard to sex, nationality, race, and occupation. Managers who depend on stereotypes instead of facts about individuals are more likely to make decisions that are less fair, less correct, and perhaps less in line with the law. As with ethnocentrism, managers are unconsciously influenced by stereotypes, which has the added danger of convincing them that their prejudices regarding other groups are factual. Sometimes managers will point to experience as evidence of these beliefs; forgetting that they might be misled by experience. For example, when asked to think about effective leaders and to identify traits they associate with these leaders, many people will identify masculine qualities. These results are conditioned more by a paternalist cultural history than by individual abilities or qualities. Here, our history may in part blind us to viewing women as effective leaders.

Executives make many important personnel decisions such as promoting, hiring, and terminating employees. In situations where the criteria for assessment and the qualifications are somewhat murky, executives need to consciously avoid bringing improper views about others groups into the process. Here clear sets of guidelines can be helpful. If company policy dictates that the individual with the leading sales record is the one promoted, the impact of any ethnocentric or stereotypical views will be limited. Having clear and quantified criteria keeps stereotyping out of the process to a much greater extent than imprecise qualifications like leadership ability.

Our biases have a greater impact on our actions when our decisions are made on intuitive or subjective grounds instead of being rooted in concrete, objective information. Some managers prefer a more vague, qualitative process of assessment that relies more on their own judgment, but this method has some inherent dangers. By using a quantitative process, managers can better avoid areas where improper beliefs might impact their decisions. In most cases, the quantitative approach will have the same result as the qualitative one—but, the quantitative approach will be less subjective and is likely to be deemed more fair by all parties due to its objective criteria.

Companies need to embrace proactive strategies and policies for keeping biases out of the decision-making process, such as reiterating to employees that

such biases are not tolerated within the organization, and approving equal opportunity principles that are enforced. Leading companies in this area look beyond compliance measures and have figured out the value proposition of how increased workforce diversity leads to competitive advantages.

Perception of Causes

Managers' beliefs concerning what causes events to occur or not occur may be flawed, which can also affect a decision's quality. We all have opinions regarding why businesses succeed and fail. Managers must often look beyond the obvious causes and collect relevant data to determine the roots of a problem or situation. Our understanding of causality in part determines how we assess moral responsibility and whom we blame or laud—an individual, an organization or a policy—for a particular result. We often forget, however, even under the most transparent circumstances, causation is multifaceted and difficult to determine. When the result is an unpleasant one, any consequent disputes typically revolve around different interpretations of causation: who is responsible; who should be blamed; and what is just punishment.

Several years ago, more than 180 people drowned off the coast of Belgium when the ferry *Herald of Free Enterprise* (the *Herald*), which took cars from the Belgian port of Zeebrugge to Dover, England, sank in calm conditions shortly after departing from Zeebrugge. The *Herald* went down because water flowed into the bow doors through which cars were loaded onto the ship. Tragically, these doors had been left open and the assistant bosun—the crew member responsible for shutting them—was asleep when the ship left port.

The *Herald* did not have an automated system to alert other crew members when the bow doors were open or closed, even though the captain had recommended that the ship line install such a system. Since the first mate was charged with monitoring the bow doors closing, the company felt such a system was not required. In this instance, however, the first mate was covering other duties related to a staff shortage, and he did not check to make sure that the doors were closed. Also, there was a "negative" check system—from an electrical switch that was "off" when the bow gate was down—so when he did not get a signal, the captain assumed this meant that everything was in order for the *Herald's* launch. In reality, the bulb was burned out so, although there was no signal, it was due to a completely different and unanticipated reason. The *Herald* was 20 minutes behind schedule when it left Zeebrugge and to make up the time, the captain decided not to pump out additional ballast the ship had taken on in order to load cars on its upper deck. This extra ballast caused the *Herald* to create a bow wave as it moved out of the harbor, allowing water to flow into the open bow doors, which would have been several meters above sea level without the added weight.

Focus on People

In determining the cause of the accident, whom should we blame? The list of potential culprits includes the captain, the sleeping assistant bosun, the first mate, the executive who thought warning lights unnecessary, the individual who designed the negative check system, or the owners who did not properly staff the *Herald*.

...we need to recognize that systems and environments can either limit or multiply human error which is bound to occur.

In assessing blame, most people tend to *blame* a person. Even when intricate technologies are involved (as is the case with the *Herald*), we find it simpler to blame individuals since, with hindsight, we can easily imagine how they could have acted differently to prevent a given disaster. We can easily imagine an assistant bosun who stayed awake, a first mate who made sure the bow doors were closed, and a captain who pumped out the extra ballast even though it would make it difficult for the ship to stay on schedule.

We have a harder time imagining the *Herald* being equipped with different systems and protocols and are less likely to see these as having caused the ship's sinking. If the Herald had warning lights to indicate the bow doors were open, it would not have left Zeebrugge until they were closed. If a positive check system had been in place—where there would be a signal needed to inform the captain that the doors had been closed—the captain would have known that the doors were open. Human error arises within systems that differ greatly with regard to how proactive they are for preventing errors from being made. While we tend to view human beings as causal agents, we need to recognize that systems and environments can either limit or multiply human error which is bound to occur. From a strategic perspective, what is the simpler change to make – adding warning lights or increasing employee alertness? To counteract the tendency to simply blame a person, managers should thoughtfully consider all possibilities—including systems, procedures and environments—to diagnose a situation and make decisions.

Sins of Omission

It makes sense to hold the assistant bosun partially responsible for the tragic sinking of the *Herald*, since he failed to complete the task assigned to him. Sometimes, however, we are tempted to use another's failure to act to blind ourselves and others to our own responsibility. This is especially true if respective duties and expectations are vaguely defined. If an executive neglects to report an incompetent colleague,

QUALITY: Seek all relevant information about a decision's consequences

Potential Hazards

- Ethnocentrism
- Stereotypes
- Faulty perceptions of causes

Avoiding Danger Zones

- Use quantitative processes
- Have explicit corporate policies
- Dig deeply for root of problem

does he bear some responsibility for any damage this person causes the firm? If a CEO refuses to terminate a manager who ignores ethical regulations, how responsible is she for this manager's impact on the firm? Many of us would tend to point to the moral failing of the colleague and manager as the sites of blame, perhaps ignoring culpability on the parts of the executive and CEO. The executive and the CEO are logically as culpable as the assistant bosun, however, since like him, they had ability to prevent damage to the firm if they had acted. Evil prevails when good people fail to act, as the adage goes, but too seldom do we hold the "good" people who failed to act accountable.

BREADTH

While quality entails assessing a decision's full range of consequences, breadth requires that we account for the potential effects on all stakeholders. Using moral imagination[3] to look beyond the direct and obvious impact of a specific decision, managers should make an effort to imagine other possible moral implications for additional stakeholders. Managers should maintain openness to things they may not have considered. The psychological tendency to simplify consequences might affect the breadth of a decision.

To make decisions that are ethical requires that we have realistic views on the world. This means, at the least, that we must explore the full range of results that a decision may have for various stakeholders. Our biases act like blind spots when we try to envision this range of potential outcomes.

Simplifying Consequences

Executives must often judge the risks associated with particular strategies, outlining and assessing the range of likely outcomes. In order to make this process simpler to manage, executives often curtail the range of possible outcomes that they consider. Ignoring some potential outcomes, however, can lead to various biases including ignoring low-probability events, ignoring the possibility that the public will "find out," and discounting the future.

Ignoring Low-Probability Events

Sometimes we avoid facing the possibility of troubling risks, if we believe there is a potential for a significant gain. For example, managers might ignore or underestimate the potential impact of a flaw in a hot new product which is expected to have a dramatic impact on the firm's profits. In March 2005, a 21-year-old Minnesota college student died when his heart defibrillator failed to work properly. *The New York Times* reported in May 2005 that for three years Guidant Corporation had knowingly withheld information from doctors about a malfunction affecting a small number of their defibrillator products. Although the malfunctioning defibrillator had a reported failure incidence rate of only 0.07 percent, as Dr. Barry J. Maron of Abbott Northwestern Hospital in Minneapolis stated, "it is a statistical argument that has little to do with real people." [4] The importance of this information was insufficiently appreciated. The point for managers is certainly not that low-probability events should drive decision-making, but rather that such events should be appropriately considered in the process.

Ignoring that the Public May "Find Out"

Managers and executives are well-served to always consider society in general as a stakeholder. Managers should consider what would be the public's reaction to a decision and to the reasons for it. If they are concerned about this reaction, managers should question the decision. An added risk to a decision that requires secrecy is that the information might come to light. With today's level of information technology and access, the likelihood of maintaining these secrets has become increasingly diminished. Additionally, damage to the respect of both the organization and the individuals involved in the deception should be considered. An often ignored risk is the need to continue the pattern of deceit. Besides hiding the original issue, the deception itself must also be concealed.

To avoid using psychological techniques for simplifying consequences, first, develop a list of the stakeholders.

Often managers' decisions involve confidential or proprietary information which cannot be disclosed. Transparency does not mean that managers must reveal sensitive information. It is appropriate and ethical to maintain the secrecy of certain information. When the executive's motivation in maintaining secrecy is that they fear public reaction, then it is inappropriate. A manager can ask herself if she feels the need to conceal information about certain aspects of the project from the public. If the answer is yes, she may need to reconsider whether or not it is an ethical undertaking.

Discounting the Future

We often give shorter shrift to issues that will face us in the future than we do to those with more immediate consequences, often neglecting the fact that the impact of our decisions tends to grow over time. Managers who do not deal with the issue of the distribution of consequences over time will not understand why they have not been more successful, and they may face accusations that they exploited the present at the expense of the future. The bias toward discounting the future is of relevance to the United States budget deficit, decaying urban centers, and global climate change.

BREADTH: Take into account possible outcomes for all stakeholders

Potential Hazards

- Ignoring low-probability events
- Ignoring that public will "find out"
- Discounting the future

Avoiding Danger Zones

- Compile list of potential stakeholders
- Evaluate from stakeholders perspective
- Be appropriately transparent
- Consider future consequences

An example of an executive taking a leadership position in considering future consequences is the case of Ray Anderson, founder, chairman and CEO of Interface, Inc. According to a May 1999 *Fortune* magazine article, Anderson decided to change his industry-leading flooring company into a sustainable business, one that didn't cause any harm to the environment. "For the first 21 years of the company's existence, I never gave one thought to what we were taking from the earth or doing to it, except to be sure we were in compliance and keeping ourselves 'clean' in a regulatory sense," Anderson explained. Based on his view of how his company, the industry, and business in general had been operating, Anderson predicted that "In the future, people like me will go to jail." Anderson held future generations and the impact of his industry in the forefront of his business decision making.

To avoid using psychological techniques for simplifying consequences, first, develop a list of the stakeholders. One way to identify these groups is to develop a transparent decision-making process that invites stakeholder participation, including potential critics. Access to public information will differ according to stakeholder group, so a manager using this technique risks overlooking key stakeholders.

Another possible approach is to invite select stakeholder representatives to be a part of the decision-making team. It is important for managers to think broadly when identifying these representatives. Potential critics may read openness as a sign that your firm has nothing to hide, nor to fear. In the past, for example, Nike was widely criticized on "sweatshop labor" issues. In 2005, Nike adopted a stakeholder transparency approach by releasing a comprehensive company social performance report with detailed information about their factories and suppliers from around the world.

Once stakeholders have been identified, the next task is to assess and judge the potential impact of a decision from the stakeholders' perspectives. Executives who make socially responsible decisions tend to view their firm in the wider community context, recognizing that the firm impacts this group. If the community opposes a company practice, it is a much better strategy to deal with this transparently, rather than being publicly ambushed by the other party at a later date. Information technology has empowered small groups to quickly muster strong opposition toward a corporate policy or decision in ways that were previously not possible.

Finally, executives must recognize that their decisions impact the future as well the present. Executives need to protect vital social and natural resources for future generations, while managing their firms. Executives should forgo the appeal of privileging their own generations over future generations. Current generations should try to leave future generations with a better situation than what they inherited and not with the bill for their own activities.

Breadth is a critical component of making ethical decisions—it is both ethically appropriate and strategically valuable. Recognizing breadth is both the right thing to do and the smart thing to do. Not only is intentionally excluding stakeholders' interests or contributions a poor ethical decision, it is also strategically unsound since it invites opposition and resentment where there could be common ground.

HONESTY

Known by many different names—integrity, one's North Star, moral compass —honesty must be central in all aspects of business, including decision making. Biases such as overconfidence can unknowingly affect the integrity of a decision.

Overconfidence

Managers not only need to be truthful with other people, they must also be critical of and honest with themselves. Managers may not be conscious of how they have developed judgments and beliefs. People perceive their own memories to be accurate, but there is solid research that indicates otherwise. People believe they understand why they judge others in a certain way, but research reveals different reasons. Our views of ourselves are often partially inaccurate for a range of reasons.[5]

Confidence, intelligence, and moral strength allow managers to make hard decisions that may not be popular with others. Often these decisions are required and expected of managers, however, ethical problems can arise if a manager's views about herself are distorted. A manager's self-perception may not include sufficient openness, modesty and self-criticism with regard to her abilities, thus allowing the overconfidence bias to cloud her judgment.

Managers must guard against overconfidence and potentially irrational, unethical decisions. People can learn to question their own judgment, to habituate themselves to calculate risk, and to test their intentions in assessing others. As a manager, ask yourself: "Am I using reliable data or stereotypes to evaluate subordinates?" Managers might be unconsciously biased to favor their own views or those held by their firms. Getting external input may not be sufficient to eradicate or decrease these biases because we are inclined to notice and cling to information that supports our beliefs, which can prevent us from learning from our experience.

Most executives are overly certain of their knowledge. Academic surveys that ask people to respond to fact-based questions and then ask respondents to predict whether their answers are true, show that peoples' judgments of their accuracy far exceed the actual number of questions they answer correctly.[6] People who answer a sizeable set of two-option questions—and claim a 75 percent accuracy rate—tend to give the correct response only 60 percent of the time.[7] When respondents predict 100 percent accuracy, commonly they tend to have the correct answer in 85 percent of the cases.

Overconfidence, coupled with other biases, is a harmful blind spot to making decisions that are rational and ethical. Overconfidence is dangerous when executives base decisions or policies on information that is not accurate.

Overconfidence may cause a manager to avoid gathering additional information about an issue before making a critical decision.

These policies may prove harmful to the executives making the decision and to others whom the decision affects. People who are overconfident in their own

knowledge and understanding of a state of affairs will forgo a search for more and better information. Overconfidence may cause a manager to avoid gathering additional information about an issue before making a critical decision.

Even managers who recognize that more or better information is needed may seek that information in a way that is slanted toward affirming their existing beliefs.[8] A series of studies tasked subjects with determining the rule of which the number sequence, 2-4-6, is an instance. Subjects were permitted to pose other three number sequences to an experimenter who would then state whether the sequences followed the rule that defined the set. Participants could decide when they had sufficient information to determine the rule.

Commonly, subjects assumed the rule to be: the second number is larger than the first number by the same amount as the third number is larger than the second number. The actual rule is: any three ascending numbers. When subjects tested confirming sequences such as 4-5-6, 20-25-30, or 310-317-324, they received positive feedback which increased their belief in the initial, erroneous rule. In order to learn that their initial guess was errant, participants had to check their hypothesis by recommending sequences that did not fit their hypothesis. The lesson for managers here is that, in seeking unbiased information, they need to ask questions that would disconfirm their assumption if answered positively. Acquiring information in this way is less comfortable, in part because it can make it look like we are less confident.

In light of this, consider the case of a manager who is interviewing an engineer regarding a tool grip's safety. The manager is overconfident in his belief that the grip is safe and unconsciously may want to confirm this idea. A question's phrasing can bias how it will be interpreted and answered. If the manager asks "This grip is completely safe, right?" or "Our grip complies with all of the standards for this type of tool, doesn't it?" the manager unknowingly influences the engineer's response. The manager is showing a confirmation bias by asking questions he expects to be answered "yes." Also, unintentionally, he is taking advantage of social politeness, because people are more likely to agree than to disagree. In framing his questions in this way, the manager hurts his chances of learning if the engineer has real reservations regarding the product's design features. Flipped so that the answer "yes" would either disprove the manager's idea or not display any confirmation bias, better questions to ask might be "Are there any features with this design we might need to be concerned about?" or "What are the advantages and disadvantages of the grip?"

Erroneous views of the self such as overconfidence are most problematic when managers see themselves as above the normal rules, codes, and obligations. If a successful manager or executive holds himself above conventional ethics, he may only follow self-imposed rules that others might view as self-serving. He may see his valuable contribution to the firm as a valid excuse for inflating an expense account or using company resources for personal benefit. He might justify deceiving shareholders or employees by altering financial reports to achieve important financial gains on their behalf. Finally, he may do something immoral or illegal, convinced that he will never be caught.

To counteract overconfidence, managers can use their conscience to test whether or not a decision is ethical. If it cannot withstand public scrutiny, then the idea may be ethically unsound. Some managers try to envision how they would react if their actions appeared on the front page of a major newspaper. One executive from a recent Institute seminar offered the following guidance for determining ethicality: "If there is a doubt, there is no doubt."

The biases that lead managers to self-deception and overconfidence can also allow them to trick themselves into justifying false answers to hypothetical tests. Managers should, therefore, imagine whether their stakeholders would accept their ideas or decisions. In particular, they should ask whether the people with the most to lose would accept the reasons for their actions. If not, they may be approaching an ethical danger zone. To combat overconfidence, for instance, managers should consider ways in which their decision or assumption might be wrong. Another overconfidence filter for managers is assigning someone to scrutinize a decision for false assumptions and optimistic projections.

Human memory is unreliable, which can threaten rational and ethical decision making. Managers must acknowledge and compensate for flawed memory with improved, detailed record keeping. Record keeping and benchmarking are critical for objectively measuring process performance. Erroneous views and biases threaten ethical leadership.

To avoid decision making traps, managers can use three pillars—quality, breadth and honesty—to develop a framework for business decision-making. The right thing to do is not always a clear choice for the decision maker, and is often not the opposite of the wrong thing. Unethical behavior in organizations is commonly affected by psychological tendencies that create undesirable biased behavior. When they identify and confront these biases, managers make more rational and ethical business decisions and increase the likelihood of success for the organizations they lead.

HONESTY: Keep honesty central in all aspects of business

Potential Hazards
- Overconfidence
- Self-deception
- Untrustworthiness of human memory

Avoiding Danger Zones
- Follow your conscience
- Attempt to disprove assumptions
- Challenge what you think you know
- Keep detailed records and benchmark

A Thought Leader Commentary™ with Anne M. Mulcahy, Chairman and CEO, Xerox Corporation

Q: Xerox Corporation is known as a leader in the area of workplace diversity. How do you encourage employees to avoid using stereotypes when making decisions?

Anne M. Mulcahy: We confront stereotyping and other subtle forms of discrimination head-on and across-the-board via our Valuing Diversity initiatives, which includes ongoing training, frequent communication, strong manager expectations, and much more. But working with a rich diversity of co-workers every day is the best experience, education and enabler for a discrimination-free work environment. And we back this up with a strong zero tolerance policy for all types of discrimination or harassment. We're fortunate to have a culture built on many years of nurturing diversity through efforts that date back to the 1960s.

Q: Executives are rarely faced with explicit trade-offs between ethics and profits. What should businesses consider when faced with a potentially hazardous ethical situation?

Mulcahy: Business is all about risks and rewards and the biggest rewards often entail the biggest risks. We have to measure how much risk we are willing to accept in order to maximize profits, but that doesn't mean a trade-off against ethics. At Xerox, we operate in a very competitive environment and the pressure to produce is intense, but the consistent message to managers and sales representatives is to produce in an ethical manner—follow all the rules and listen to the customer. Ethical trade-offs can appear to have short-term advantages, but they usually don't, and they certainly don't in the long run.

PHOTO: ADAM AUEL

Anne M. Mulcahy

Q: Conflicts of interest can pit self-serving processes against good business judgment. How does Xerox manage these potential conflicts of interest?

Mulcahy: Samuel Gompers, founding president of the American Federation of Labor (precursor to the AFL-CIO), noted that the primary responsibility a corporation has to its employees is to earn a profit. The premise is that a strong and sustainable corporation provides the best benefit to its employees, and in fact, all of its stakeholders. We focus on satisfying our customers and ensure we do so in a way that is fair and profitable for Xerox. We strive to ensure that our employees and our stakeholders know that a win-win situation for the company and our customers means a win-win for our employees and shareholders as well.

Q: This paper proposes that some ethical problems arise from normal psychological processes rather than character flaws. Can you illustrate how managing these processes rather than preaching about character can be effective?

Mulcahy: Our focus is on business conduct while conducting business for Xerox. We have a very explicit and effective Code of Conduct which is supported by hundreds of internal policies and our overall values statement. Our message to our employees is, 'this is what's expected of you when you work for Xerox.' We don't try to change people or make them live, think or behave a certain way when they are away from work. The beauty of individuals is their individuality. The beauty of Xerox, in this context, is that via a common set of rules and values, we know what we can expect of one another and that enables us to get the job done and get it done right.

Q: There is a well-known quote, often attributed to Vince Lombardi, "If you're not keeping score, you're just practicing." Can you illustrate how accountability is enhanced by measurement?

Mulcahy: I'm sure you've heard another adage, 'what gets measured is what gets done.' Measurement has everything to do with accountability. We have another saying at Xerox: "We pay for performance, but we hire, promote and fire based on values." That means if you want to maximize your unit's results and your bonus potential, you have to deliver—the top line and the bottom line. But you also have to deliver those results in the most ethical manner, or you won't have the privilege to work at Xerox.

Ethical trade-offs can appear to have short-term advantages, but they usually don't, and they certainly don't in the long run.

Q: How do you communicate that Xerox means what it says about ethics?

Mulcahy: A fair and consistent message is extremely important and this carries through when it comes to discipline for wrongdoing. Xerox's chief ethics officer has developed guidelines for discipline relative to ethics violations, and those guidelines do not make any distinctions for organizational hierarchy, tenure, or ability to drive revenue. We are nearly fanatic about ensuring consistent discipline. Furthermore, on our Intranet, we publish sanitized ethics case results so other employees can get a sense of how seriously we address ethics violations. We do a good job of frequent and consistent communications, but the two most powerful means are face-to-face and tone at the top. At the top of the organization, it is incumbent upon me and my senior staff to 'walk the walk' when it comes to ethical behavior and expectations. This tone quickly permeates the entire organization. It is easier for employees to act ethically when they know I and their managers believe in ethics, conduct ourselves in an ethical manner, and expect our co-workers to do the same.

For more information about Xerox and its ethics and compliance program, visit www.xerox.com/corporategovernance.

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Avoiding Ethical Danger Zones

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Thought Leader Commentary™

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ENDNOTES

[1] For additional information on these issues, consult: S. Worcheland and W.G. Austin, *Psychology of Intergroup Relations* (Chicago: Nelson-Hill, 1986).

[2] M.B. Brewer, "In-Group Bias in the Minimal Intergroup Situation: A Cognitive-Motivational Analysis," *Psychological Bulletin* 86 (1979): 307-324.

[3] Patricia H. Werhane, *Moral Imagination and Management Decision Making*, Oxford University Press, 1999.

[4] Barry Meier, "Maker of Heart Device Kept Flaw From Doctors," The New York Times, 24 May 2005.

[5] For example, see: S.E. Taylor, *Positive Illusions* (New York: Basic Books, 1989).

[6] S. Lichtenstein, B. Fischhoff, and L.D. Phillips, "Calibration of Probabilities," in D. Kahneman, P. Slovic, and A. Tversky, eds., *Judgement under Uncertainty: Heuristics and Biases* (Cambridge: Cambridge University Press, 1982), pp. 306-334.

[7] B. Fischoff, P. Slovic, and S. Lichtenstein, "Knowing with Certainty: The Appropriateness of Extreme Confidence," *Journal of Experimental Psychology: Human Perception and Performance* 3 (1977): 552-564.

[8] P.C. Wason, "On the Failure to Eliminate Hypotheses in a Conceptual Task," *Quarterly Journal of Experimental Psychology* 12 (1960): 129-140.

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