

## Ethical Capitalism Defined

By Dov Seidman, LRN Chairman and CEO

Many people would argue that the convergence of business and ethics is impossible. But ethics is not only compatible with business; it is essential to building and maintaining successful business operations. In earlier eras of business, the Eleventh Commandment, "thou shall not get caught", was the rule you could fall back on when confronted with an ethical conundrum; however, it can't be used as the rule anymore. In the past, you may have hoped to get away with it, now, with transparency and connectedness, it is not a question of if you will get caught, but when. By placing ethics at the center of the business world-not at the periphery, or in harmony, but as the foundation for high performance and accomplishment-capitalism will be returning to its philosophical roots.

Capitalism's origins contain a moral imperative to better society and assist in society's progress. Adam Smith, the author of *The Wealth of Nations*, was previously the chair of Moral Philosophy Department at Glasgow University. While often cited for promoting the role of unchecked self-interest, Smith had a strong rationale behind his beliefs: "The uniform, constant and uninterrupted effort of every man to better his condition is frequently powerful enough to maintain the natural progress of things toward improvement." In Smith's famous formulation, trade only ultimately works with trust "by mutual consent and mutual advantage."

As it appears that business ethics have only been given their due in light of recent corporate scandals, it is easy to overlook Smith's statement. Additionally, it is not often that business leaders outline the reasons behind their actions in terms of ethics. They tend to think in terms of business results. Business leaders across the globe spend a great deal of time and effort asking questions such as:

- "How do we create high-performance teams?"
- "How can we promote better, more thoughtful decisions?"
- "How can we be sure our offerings are well conceived and of the highest quality?"

While these goals do not speak directly to ethics, at their core, they are indeed ethics-driven. This seems unclear, because often ethics are thought of in the abstract, apart from the real world. However, when we look at ethics in terms of how people interact with and treat one another, the true practicality and value of ethics begins to emerge. And there are many real world illustrations that support this. For instance, a recent study discovered that when trust was won from suppliers and customers, the costs of an automobile could be cut by ten to fifteen percent. It was also reported in the study that "writing contracts, haggling and assigning blame was so much more extensive in the least-trusted firm that the dollar value of parts purchased per procurement employee was less than one-fifth what it was in the most-trusted firm."

There are significant costs resulting from the caustic cynicism that springs from mistrust. And building trust is not a simple task, it isn't done in a day, particularly in populations that are inclined to be cynical. Trust also can't be built through the creation of an acquiescent culture where people blindly follow rules. This type of culture leads to the creation of large bureaucracies whose role it is to ensure rules are followed, and this is generally ineffective. It doesn't lead to a culture that follows rules, rather it leads to a culture that is constantly seeking novel methods for subverting and getting around the rules. In order for people to begin to follow rules and internalize and adopt them as values, they must first be made to understand the logic behind the rules. The driver to accomplish this is ethical leadership.

## **Ethical Leadership: A Renewed Focus**

It was Thomas Jefferson who said "the price of liberty is eternal vigilance," and the same can be said for implementing and nurturing the shared values that are the earmarks of a corporate culture. Doing this is not an organic process, it requires constant attention. To ensure the trust flourishes, people require a framework that helps create and foster self-knowledge. The crisis of trust that business finds itself in did not result from a lack of capacity, but rather by hard work misdirected toward improper goals.

Ethical leadership begins with a plan to weave ethics into the fabric of an organization in a manner that will allow the organization to succeed. When ethics is placed at the center of an organization like this, it helps to direct efforts towards appropriate activities. It allows companies to encourage behaviors they acknowledge and reward. It is not surprising that people who see others taking part in or approving nefarious behavior may begin to imitate it, whether consciously or not.

A large number of recent scandals came about because many people were basing their decisions and actions not on what they *were* allowed to do, rather than what they *should* have been doing. Supreme Court Justice potter Stewart noted this tendency, and advised that "There is a big difference between what you have a right to do and what is right to do." Until ethical behavior is recognized and rewarded by business leaders-even when it may come at the cost of quick profits, or the establishment of a favorable business relationship-people will not believe that a company's commitment to ethics is an integral part of its overall mission.

The abstract nature of corporations can sometimes lead us to forget that in essence, corporations are associations-communities more or less-that consist of people who are working towards a common goal. The people that comprise these communities are driven to meet and oftentimes surpass the expectations of their supervisors, but they are also impacted by the thoughts and behaviors of their peer group. Invites to lunch and to other group outings are reliant on an informal set of standards and behaviors that make up a corporate culture. Because of the decided influence of peer group behavior, a focus on law and compliance is not a sufficient enough effort to make people internalize values, and neither is an endorsement from company leadership.

Organizations need to encourage ethical leaders at every level of their enterprise, and throughout every peer group, and ultimately, they must make it understood that ethics is everyone's responsibility. Only then can an unfailing, long-term and effective culture begin to take root.

A component of understanding the value system that an organization strives to adopt is by determining which value systems they reject. Simply put, when a consensus is reached on what is detrimental or poor behavior, it effectively helps organizations clarify what they feel is good behavior. By dispensing rewards and, when called for, shifting the burdens of shame, ethical leadership can help direct the development of an organization's culture. For instance, American workers often experience a great degree of pressure to keep silent when they witness misconduct. While it is possible that many people would not be untruthful if confronted, as a rule they do not come forward with information of their own volition. Yet instead of considering this type of behavior disgraceful, it is often the people who come forward to report wrongdoing who are subjected to ridicule and embarrassment, rather than those who choose to look the other way.

It is possible for ethical leadership, over a protracted period, to be the impetus for a cultural realignment around this, as well as additional, ethical dynamics in an organization. For this to come to pass, the type of behavior that is rewarded must change, standards and practice must be redesigned, and burdens must be properly allocated. But first, it is imperative that ethics are given consideration, modeled, and strengthened on a consistent basis. To operationalize this, we can examine the safety and quality control movements of the 1980s.



At one point in history, safety and quality in business seemed just as nebulous and elusive as ethics appear to be in the present day. On the job accidents and work-related deaths were accepted as the costs of doing business. Quality control consisted of examining products for defects once they were completely assembled and attempting to remove any defective parts without compromising the integrity of the end product. There hadn't been a nomenclature designed to talk about quality control and safety in the context of business operations. Now methods such as Six Sigma exist to measure these areas. Both have shifted the focus of their efforts to include the process-not just the outcome-in order to improve and refine their businesses.

The same can be done in the ethical arena. At a global chemical company, it is standard operating procedure to begin every meeting, regardless of what department or topic, with a safety message. For an outsider, it can be odd to sit in a meeting with someone telling you the quickest routes to the facilities emergency exits. But it serves to create a culture where the importance of safety is top-of-mind. Imagine a business world where meetings start with a reminder about the necessity of ethical behavior, and where ethics is an integral part of every decision and action. This type of dynamic can promote a new sense of the value of ethics and the commitment of companies to it. It also creates a growing group of ethical leaders that help make 'doing the right thing' central to a corporate culture, rather than pushed to the margins as attention is paid toward 'real work.'

Ethical leaders must build ethics inextricably into how they conduct business, and help create business goals that discourage employees to cut corners. We need to implement mechanisms for employees that would like to report ethical misdeeds, and back these with tangible rewards and recognition when used. The optimal time to do this is now, for now, more than ever before, it has become practical to be principled. And if we want to help rebuild one of the cornerstones that make life worthwhile, we must take action.