

A Corporate Training View of Ethics Education: An Interview with Dov L. Seidman, CEO of LRN

Interviewed by: Kenneth R. Thompson
DePaul University

Dov L. Seidman is the founder, chairman and chief executive officer of LRN. LRN was founded in 1994 as a privately-held company that provides companies of all sizes an integrated set of applications and services that help companies foster and fortify enduring, ethical corporate cultures that encourage self-regulation based on shared values, rather than externally-imposed rules. With uncompromising commitment to this mission and vision, Mr. Seidman has successfully grown an organization that is having a significant impact on the ways employees and management behave in the workplace. An innovator and leader in ethics and compliance management and corporate governance solutions, LRN works with more than 200 organizations many of which are the world's most successful companies, including 3M, Viacom, DuPont, Johnson & Johnson, Pfizer, Procter & Gamble, Raytheon, The Dow Chemical Company, Tyco, and United Technologies Corporation. Our interview was conducted on March 8, 2006, just before the Enron trial commenced.

Ken Thompson: Part of my goal is to reframe the way people think and act regarding ethics training and education. You are in a unique position to tell us how business views and how you view the traditional ethics training.

Dov Seidman: I was struck that you used the word “reframe.” It is essential to reframe and re-contextualize how we look at what people conventionally think is ethics training. Frankly, the minute a company says, “we need to train our people on ethics,” they start going down the wrong road.

Most people will tell you that they are more ethical than their neighbor is, certainly more ethical than their colleagues are, and in many

cases, more ethical than their boss. Most adults think they already have developed a tested ethical compass based on the right values. It is innate human nature to believe that we can figure out the difference between right and wrong. People do not want to be trained in something they already know – particularly if the mandate for training comes in a response to what they perceive, as somebody else’s ethical failing.

Besides, training is typically effective for basic, rudimentary endeavors and business processes. Training is moreover thought of as a distraction – something you do because you have to, but that takes away time from your “real” work. As children, we had training wheels on our bikes to support us before we could ride on our own. Telling people that you would like to train them on ethics engenders cynicism because people believe they already have good ethics. People say, “Before you train me, why don’t you train the management team? They are the ones who seem to need it most.”

However, if you reframe, re-contextualize and engage the very people who think that they are already ethical, you get a different reaction. Most would like some continuing education and skill development on how to recognize and become more effective at resolving sensitive conflicts, how to wrestle with and struggle with dilemmas, how to write thoughtful and careful e-mails. This is increasingly important in the context of global business. You can’t always assume from an e-mail address if the recipient is a man or woman. By reframing the issue of training, those same people who said “no” to training on ethics, affirmatively embrace education because they see how it can make them more successful on the job and beyond.

Framing is the crux of the matter. If you get it right at the beginning, you have a chance. If you get it wrong at the beginning, people will shut down and tune out. They will think the company is just trying to check a box, cover itself by requiring a 35-minute online training class. Therefore, in the spirit of framing, I reject training and embrace the higher burden of real education in ethics, which is much more complex, nuanced and more difficult to accomplish. To truly educate, you have to adopt a different pedagogical approach. You have to do more than just make people aware of what issues they might face on the job. You need to transcend awareness training to true skills development, thought processes and reasoning abilities. It is about a way of reasoning, it is about a way of making ethical decisions, it is about inspiring more respectful, appropriate conduct.

K.T.: How do you define ethics and how is it different from just complying with the law?

D.S.: I think the distinction is really important. Ethics is all about how we conduct ourselves and make decisions. Ethics are the norms, attitudes, and beliefs having to do with how people treat each other and get along in the environments they find themselves. For example, on the job, you do not need ethics if you are on an island by yourself. Ethics comes in when you find yourself on a team, in a community, at a company. It has to do with how you treat others. How we communicate. How we get along.

Now, in very narrow definition, some people might argue that the Sopranos have good ethics. They have a code of conduct – a code that is based on amoral and in many cases immoral values – but they explicitly adopt this code and understand the consequences of breach. They do what they say and say what they mean. The Sopranos illustrate the literal deadly consequences of allegiance to a code while at the same time being devoid of an ethical and moral compass.

The relationship between values and ethics is essential. What guides these ethical beliefs, norms, attitudes, and practices? I have found that people are not interested in ethics as a noun – as a static field of theoretical and philosophical study. I believe that ethics is an adjective. It

should always modify and animate what we do – for example, ethical sales practices, ethical decision-making, and ethical conduct in a meeting. The more we teach and talk about ethics, not as a noun but as an adjective, people connect the how they do things to what they do. Teaching ethics as a noun tends not to be effective.

K.T.: So, you are saying that much of what we do in education when we focus on the history of ethical thought, probably is not perhaps serving our students very well.

D.S.: Yes, we tend to teach ethics as a noun. That has to do with compartmentalization -- the silos you see in business. Academia has the same silos to the degree it devotes separate classes to ethics and doesn't integrate, or attach how we do things to what we do. Again, life is not just about what you do, but how you do it. If you do not talk about how in context of what, then people have a tough time applying ethics in practice. However, back to your point, how do you define ethics?

We are a Rule-of-Law society. We put law above man. The greatest companies put their codes of conduct above the capriciousness and proclivities of any CEO. Therefore, the fact that we would rather be governed by law as opposed to another system, I think, is very powerful. The problem is the instrument of law tends to be rules, and as you know, rules are over- and under-inclusive. Laws also reflect a floor, rather than a ceiling on appropriate conduct. Laws and rules are enacted in an effort to create predictability and certainty. Where they have failed to create predictability and certainty, however, is in variation in human conduct.

You need to be 18 to vote. Yet, there are some 25 year olds voting in elections who are not particularly mature. There are 15 year olds who might be very mature with a highly developed sense of civic duty and responsibility who do not get to vote. However, it is an easy election to administer if you show up with a drivers license. We can tell if you get to vote or not. A better election would be for all mature people with a highly developed sense of civic responsibility to show up at the polls. However, it would be nearly impossible to administer. How would you teach maturity? How would

you build consensus around what mature behavior is and is not?

But that is in fact where we are at today. When the CEO of Boeing leaves the company and the explanation given is that he brought disrepute to Boeing, it raises the question how do you teach repute versus disrepute? “Repute” or “disrepute” are ethical concepts. What do the other Boeing employees say? “Wow, decisions at the highest levels are being made in the sense of repute?”

It is no different from applying for a job in the White House when you are asked, “have you engaged in any conduct that could bring embarrassment the President?” How do you come to an agreement as to what is embarrassing and what is not? Obviously, the world would be better if we did not rely solely on rules. One way to look at rules is, as Supreme Court Justice Potter Stewart said, “there’s a difference between doing that which one has a right to do and that which is right to do.” Law and rules are about what we have a right to do and not to do. They are about *can* versus *cannot*. We are muscle-bound; we are terrific at deciding what we can and cannot do. That is what legal permissibility is all about. Ethics is about what we should or should not do. And we are not as good at differentiating the *shoulds*. Nevertheless, we have to get good at this. The corporate world has the challenge of being better at teaching and building consensus and real understanding on what we *should* and *should not* do in various situations.

K.T.: And that is even more complex in the global sphere.

D.S.: Much more complex with global, and we will get to that. The problem with rules is that rules are over- and under-inclusive. They reflect vulnerabilities, rather than strengths. Companies do not have rules that tell their employees to breathe and keep breathing. There is no vulnerability around breathing. I’ve never encountered a company that felt the need to create a rule that says go home, see your family. It is natural that employees want to go home and see their families. However, companies tend to have rules to show up at 8:00 in the morning, for example, because there is a vulnerability that an employee might not. Rules tend to follow an infirmity, a vulnerability – something that went

wrong retrospectively. However, there is no content in a rule that can inspire conduct. You could follow every single rule and yet never delight a customer or exceed a customer expectation. You could comply with every rule and not win in the marketplace. That is because rules set minimum standards. We all have a choice of where we work. Companies will increasingly have difficulty attracting and retaining high-caliber employees, and capturing the hearts and commitment of those who do sign on. Companies won’t get the inspiration and extra effort needed to make them Number One. Today, if you don’t get your *should* and *should not*s right, you might not get ahead in life and business. That is where ethics comes in.

In terms of education, if you are in a *can* versus *cannot* environment, you will be rewarded for cleverness or ingenuity, but you might look for that loophole. You might find a way to interpret the law differently. Your attitude toward the law might be, “do I game the law, do I find the loophole, and do I find the way around?” Ethics does not allow you to do that. Ethics is harder. We find ourselves in an environment where people are embracing the difference between *should* and *should not*. Companies are weaving that into practices and the very fabric of culture. I think that’s going to define the work ahead.

Don’t get me wrong. We need rules. However, rules are problematic. What is also problematic about rules is legislatures do not sit idle. If there are scandals and problems, legislatures are going to pass more rules, like Sarbanes-Oxley. Then companies and leaders are going to have to spend a lot of resources and energy complying with those rules, when if they self-governed in the name of ethics in the first place, there would have been no need for the rules. Therefore, we have a tense relationship between rules and ethics because of why the rules were put there in the first place. Legislatures pass rules, and then, you have no choice but to follow them. In some ways, it’s off center. It’s beside the real point which is let’s get good at what we should and should not do.

K.T.: How do you practically apply ethics? For example, as a leader, I am faced with, for example, an obligation to my

employees but I also have an obligation to shareholders. I have to do what is right for the company that may not do what I may think is ethical for employees. Such as, lower salaries or cut benefits. I do not know how to resolve those. It seems to be conflicting ethical dimensions.

D.S.: Leaders, who are essentialists, think everything boils down to one thing. It is all about shareholder values, or it is all about earnings. However, the world is complex, full of conflicts. By its very nature, ethics is about weighing and balancing different considerations, morally relevant considerations, and interests of different stakeholders who might be in conflict. What ethics really allows and inspires leaders to do is the process of weighing and balancing often-conflicting demands and interests. No CEO gets to have ethics *or* earnings. You need find a way to have both. A leader thinking that way is on the right track, as opposed to the leader who has a very well defined hierarchy. It is about understanding in different contexts how to weigh these things in terms of short-term versus long-term objectives and interests. A leader who understands that ethics is about the process of weighing and balancing considerations and interests is already on the right track. The best leaders and best companies get pretty explicit about that. They have an understanding of what the interests of their various stakeholders are. They have an understanding of all the different ethically relevant considerations. They go through a process of weighing, wrestling, and balancing, and then, they make the right calls. This is very tough. Typically, the ones who get it right are the ones that think long term.

K.T.: It seems like in a global economy forces organizations to become very amoral in the sense, “well if we don’t bring prices down somebody else will take our market share, and then we won’t be around to serve anybody.” These are tough decisions that you’re talking about.

D.S.: Very tough. I actually think that in many cases doing the right thing is often inconvenient. It can be very unpopular. It can be dangerous, and in the short-term, it can certainly be unprofitable. Sometimes that is exactly when you know you are doing the right

thing when it feels so inconvenient. Yet, we have had tremendous examples of businesses forsaking short-term profits and doing well in the long term. We also see companies taking steps to mitigate short-term pressures, such as providing quarterly earnings guidance so that they can focus on winning over the long-term.

The global context makes all this even more difficult. It is hyper-connected, and more transparent than ever. Human conduct, how we do things is much more visible. If you get it wrong, the chances are greater that it will haunt you. Years ago, a quack doctor selling ineffective patent medicines could simply pack up and move to the next town. It is very tough to take advantage of someone, and not honor an obligation today. Those who are taking this seriously are starting to gain advantage.

Let us say a company wants to be purchased or merged with another company. That company sits in a room and says, “With whom do we want to do business?” Some companies might never be considered because, “we do not want to do business with those guys.”

I’ve started to see the advantages of consistently doing the right thing in terms of reputation, and reputation preceding you. I do not think it is a neutral world. You either do the right thing and you start to engender trust and reputation value or you do the wrong thing consistently, and that gets around, and hurts you.

In the short term, there may always seem a pragmatic reason for someone to say “this one time I can bribe this person” or “this one time, I can take this illegal action because if I don’t my competitor will.” However, employees are watching their leaders and this “one time” fosters cynicism and betrays trust. One time never ends up being just one time. When you do not do the right thing, it creates conflict, dissonance, and distraction. It actually starts to interfere with productivity. I think that is the promise of the ethics education and fostering ethical culture movements. It is no longer about staying out of jail. It is no longer about not hurting the P & L by paying fewer fines and penalties. When ethics is connected to how companies and people get ahead and win in the marketplace then I think it has a real chance. When people get their “hows” right, they capture the hearts and minds of the best

employees, their suppliers and dealers, and those on Wall Street, K Street and Main Street.

K.T.: And you see this occurring?

D.S.: I do. There are studies about recently graduating MBAs who will take a pay cut to work at companies that they think are more ethical than other companies willing to pay them a bigger starting salary. Most MBAs are pretty savvy about numbers. They are betting that they will wind up ahead in the end by aligning themselves with businesses that place ethics at the center of their operations. People are also starting to vote for ethics even if it affects their pocketbook.

K.T.: How do you approach the training of ethical conduct at LRN? What do you do in trying to build that climate as you go out into an organization?

D.S.: Well again, it is not about training, it is about ethics. I am very Aristotelian, believing that a good business decision is both practical and principled. Aristotle moreover asserted that excellence is not a single act but a habit. I really believe that ethics is not something that you just cognitively learn. It is something that you struggle with and practice. Every day, people encounter ethical dilemmas, sometimes without even realizing it. Should they accept that pair of free tickets? What harm will it do if they take credit for a departed colleague's work? Should they report the CEO's questionable actions to the Board or to the authorities? Every day, well-intentioned people wind up making the wrong choices – choices that violate their own ethical sense and set them down the road to potential disaster for their colleagues and their company. Most of these wrong choices are incremental. Each one only departs slightly from the right thing to do. However, at the end of a string of such decisions lies potential disaster. Too often, the environment we live or work in skews our moral compass. It's not so much that people set out to do something wrong, but by accepting incremental steps that chip away at standards of behavior, over time what was once clearly unacceptable becomes commonplace. How many people shrugged and rationalized their behavior by saying, "At least I'm not as bad as those guys over there." Behavior becomes

acclimated to relative standards, rather than foundational principles.

How do you avoid this? Ethical behavior isn't about being a saint. It isn't about being smarter than everyone else. It's not about writing ethics manuals and policies. Unfortunately, there's no formula – simple or complicated – to memorize. However, you do have to pay attention – you need to be vigilant to avoid falling into the common traps that mark the ethical landscape. You need to practice, work and train just like an athlete practices, works and trains to perform at his or her best when it counts the most. Ethical behavior is about building the muscles you need to make the right move when it counts, no matter how confusing the situation. It's about doing putting in enough practice to recognize when you're confronted with an ethical dilemma – and training yourself to respond instinctively. It's about becoming an ethical athlete.

The outfielder who makes the catch when it counts in game seven of the World Series only can do so because he's made that catch hundreds of times in practice and can instinctively adjust to the velocity of the ball, the lighting conditions, the pressure, the fan noise – all of the circumstances. The only way to do this is to create a constancy to it so that people can make the right ethical call as a matter of second nature, as a matter of instinct, as a matter of reflex, especially when it feels inconvenient to do that. I reject the notion that twice a year, 45 minutes with an online training and we have ethics in the workforce.

Ethics education, as I described it above, encourages employees to wrestle with ethical dilemmas they can encounter on the job. It helps them learn how to identify, evaluate and resolve issues they face to make the right choice when it counts. To create the impact our customers need, our education programs engage, even provoke, while they entertain and guide employees on the ethics and compliance topics that are most relevant to their work, aligned with business goals, industry and relevant to particular employees' risk areas. Again, this is not about training them on these issues, it's about preparing employees to deal with real-world challenges, especially those in the gray areas where the right thing to do isn't always clear.

This is about practice. When DuPont, for example, wanted to be a very safety-conscious culture, they created a practice where you cannot have a meeting without at least a five-minute discussion of safety. They made a decision that a 55-minute meeting in a safe environment is better than a sixty-minute meeting in a less safe environment. Education is a big piece of it. However, if you do not reinforce education with what the company talks about if they're sitting around a conference table, then you're not going to become a great ethical athlete. You will not build up that muscle. So it is not only what you teach, it is what you talk about. Is it part of performance management? Is it part of who is getting ahead in the corporate culture? Is it part of who is striving and surviving? If you come at this in an integrated way – it's what we teach, it's what we communicate about, it's what we talk about, it's what we publicly award and celebrate, it's what we publicly discipline and punish – you have an opportunity to truly succeed. The companies who see it as a holistic approach to creating ethical culture are the ones that recreate these ethical athletes. Because we know ethics is something, we do 24/7, 365 days a year. It is about having an EPS, an ethical positioning system, which is constantly there to help you navigate. It is not just four rules of thumb, the golden rule, or a few things to keep in mind. It is how you see things. It is your attitude. It is how you approach difficult conversations. It is how you negotiate. It is how you write e-mail. Again, it is ethics as an adjective. It is how you do everything. So those are the companies who get it right. LRN tries to help them do all of that. Obviously, education itself is a big piece of this. A more educated culture will always outperform a less educated culture.

K.T.: As a business person, I'm saying okay I want to evaluate how good we are at ethics; what quantitative measures can we use to tell if somebody's being ethical or not?

D.S.: Measurement has been very difficult in this area, historically. We need to identify both our existing knowledge and understand the gaps in it. There isn't a long-term, benchmarked set of metrics that companies are using, although we're working with our customers and partners to create them. Companies that have a record of

accomplishment of what has gone wrong in the past, for instance, they can measure whether there has been a decrease in those types of incidents. That is the easiest to measure. You can also measure programs on their own terms by asking the right kinds of questions. Are we reaching people? Are we graduating people? What are they saying about the experience? Is it helpful to the company and important to my job? Am I doing my job better?

You can also look at what people are doing voluntarily. Many of our customers assign both mandatory and optional courses. Whether employees come back and take these optional courses can be a measure of effectiveness. Now, why would employees spend more time beyond what is mandatory? Because they may find it's helping them resolve conflicts of interest better, conduct meetings more respectfully, or communicate more accurately.

Surveys can also help since they take the ethical pulse of the organization. They get to the important employee attitudes around ethics. Surveys can tell you if people truly have faith in the program and recognize that the company's values hold true everywhere, or if there's a "When in Rome" attitude.

The other thing companies can look at is how well they have integrated ethics into the fabric of the organization. Is the first day of the job spent filling out W-2s, signing forms and being handed a code of conduct that you just need to sign to say you received? Or is the company making its values and ethics part of the recruiting cycle, orientation and performance management?

The good news is that ethics are now being evaluated and measured directly, no longer as they have been through proxies and surrogates. However, there is no doubt that we need to get even more rigorous about measuring and assessing ethics. Part of what we have done is to charter the LRN-RAND Center for Corporate Ethics, Law, and Governance to study metrics like this. We want the Center's work to seek to understand the fundamental changes that have occurred over the past few years that make a compelling case for ethics and corporate culture as a driver of capitalism. For the first time we will study culture as a business process similar to other routine business processes such as internal controls, safety programs and

compliance, and in so doing, seek to systematize it and develop quantifiable best practices.

K.T.: So building an ethical culture in every action you do is key. As a Baldrige Examiner, I know the importance of effective *processes* that addresses ethical conduct. Do you focus on having your clients build a systematic way of looking at ethical elements of prevention, detection, reporting a response?

D.S.: We have taken a circle that starts with what Steve Kerr, Managing Director and Chief Learning Officer of Goldman Sachs calls defining the issue. Define, detect, prevent, respond, evaluate, and repeat. Our organization has solution services and products in every aspect of that process approach.

K.T.: Is Steven Kerr where you got the idea?

D.S.: No, we developed ours separately. Ours is very much about compliance and ethics, but we are aligned philosophically in many areas, including incentives. Steve Kerr once pointed out to me that soldiers were sent home in World War II when the job was done, upon victory. In Vietnam, you were sent home after a tour of duty. These two situations created different behaviors in soldiers. One of the things Steve points out so well is that companies, often, inadvertently, provide disincentives for ethical behavior. For example, they talk about trust but demonstrate by their actions 17 different ways in which they distrust. Employees are very adroit and discerning about the difference between hollow assertions and actually aligning policies with rhetoric. An organization may assert that it bases its relationship with its employees on trust, but then you cannot get your expenses filled out without your boss's signature. We see policies and practices that companies have in place that literally send the message that they distrust their employees. Why not have employees just submit their expenses, for example, in a very rigorous online disciplined system? Companies should trust and verify, they should do random checks, and they should discipline, including firing those who betray trust.

Nordstrom's, for example, makes it very easy to return an item. Their clerks, people who interact with the customer, help create that experience. It takes a certain amount of key

strokes to purchase an item at Nordstrom's. To return a purchase, it takes the same amount of key strokes. Nordstrom's has literally operationalized that experience. It says to their employees, we want to make it as easy for you to take money as to give it back and that should contribute to your ability to foster a positive experience for the customers. Now there might be another company that has the same beliefs, but they ask their employees to fill out 10 minutes of paperwork before they can take an item back. Therefore, the companies who have the right values are only part of the story. The companies who can then operationalize it all the way down to the number of key strokes, those are the ones who get it right.

You brought up Baldrige. This really is not different than quality. Quality like ethics used to be thought of as amorphous, nebulous, intangible, and subjective. For example, I know good quality when I see it. I have an aesthetic appreciation of quality. I cannot measure it, however. It is impossible. If you want more quality, I can get it for you but it is going to cost you more.

We were in that quality track. Once, the U.S. started losing in business, we declared quality to be Job One. The first thing we did is we stepped back and we got systematic in our thinking. We then worked on improving and designing those improvements from the front end of every business process, instead of just hiring people to stand at the end of assembly lines and throw away defective products. Well, ethics is like quality was many years ago. We hire compliance officers who act like police officers at companies. We hire ethics officers to act like the high priests and the moral conscience of the company. We tell business people to pursue the commercial interests of the company and the lawyers and ethicists will make sure we play by the rules and advise us from ethics standpoint if we get into the gray area.

Now people are figuring out that in the years ahead we can look at ethics as a foundational business process. We can design it in, and we can start to create those measures, approaches, and practices. As with quality and safety, ethics will become a central important cultural part of organizations. At that point, for example, if you walk out on a factory floor, an employee wants to give you a tour, and you

refuse to put a hard hat on, you will not be told you can't be given a tour because legally you've got to wear a hard hat. The employee may be more likely to say, "The way we do business here is that you've got to put on a hard hat." Rather than point to law, it is part of the culture.

Now three out of five employees who see something that they consider misconduct -- maybe a colleague making 2,000 copies of their weekend yard sale on a company photocopier machine -- probably do not report that behavior or confront that person. They wouldn't know how to say, "You know five copies I don't think the company minds, but 2,000 copies seems to be a misuse of company property." Or the example of taking one Coke for the road out of the company refrigerator, but taking ten cokes well, there's a difference, isn't there?" Most employees are not very good at having that conversation so they just avoid it.

We have gotten much better about knowing how to have conversations about safety or quality. When the Empire State Building was built, injuries on the job were considered the cost of doing business. Then we decided, no. We should approach zero injury and zero death on the job, and we declared it the foundation of the business.

Companies are now declaring integrity as a key element to organizations' cultures. They are realizing that rules do not work to inspire high standards. Rules do not have any inspirational qualities to them. You cannot legislate someone to be passionate. You cannot legislate someone to exceed a customer expectation.

K.T.: But there is, you would probably agree, a role of government in setting some of those foundations saying these things are important even though they may only give the minimum standards.

D.S.: I could not agree more. Government has the responsibility to create certainty and predictability for citizens and a certain amount of consistency. People need to know that their currency is going to be protected. They need to know that their rights will not be violated without recourse. I mean what is the purpose of law in the first place? It is to create certainty and predictability. So that people with that certainty and predictability can innovate, create

and pursue their lives, etc. However, law is starting to fail.

Certain laws have done well in creating certainty and predictability. When I buy drinking water, whomever I buy from, I pretty much believe that the anti-tampering device on the cap is going to work. I do not select water based on anti-tampering. OSHA and environmental, safety and child labor laws provide sufficient predictability and certainty. However, in terms of who's self-dealing, whose business dealings hide a conflict of interest, or who's engaging in nepotism, I don't think that the government can create the type of certainty and predictability in this type of human conduct and human affairs. That is where ethics is going to come in. We have to understand what it is ultimately about -- a hard floor or core of certainty, predictability, and consistency. Because people can jump higher off of a high hard floor than they can off of sand. We should have an understanding as to where law is effective in creating certainty and predictability, where law is less effective, and where you have to step in with ethics and trust.

K.T.: To summarize what LRN would do as they come in to an organization, part is the training issue (the education side) and another part is to work with the organization to build a culture with processes and other leadership techniques in order to create an ethical culture.

D.S.: I had the privilege to testify in front of the Federal Sentencing Commission. One of the things I argued for is that there should be a shift away from programmatic approaches -- from conflating, putting a compliance "program" into place vs. creating and fostering a corporate culture committed to ethics and compliance. We have a long-standing history of assessing and judging the intent of individuals from a moral and ethical standpoint. We examine acts to determine whether there is malice aforethought, or depravity of heart. Was this an intentional act or a negligent act? Does a person adequately manifest repentance and remorse and take responsibility? When you think about it, we are even comfortable making life and death decisions depending on our assessment of intent. Murder vs. manslaughter; we sentence people to life or death depending on these types of ethical considerations. That is

because we believe that it is appropriate to judge the character of an individual. However, when it comes to corporations, we have shied away from imputing a character to a company. We say that just as every city has some crime, every large company is like a large city. It, too, has some bad actors and bad apples. Let us not judge the company on those terms. Let us not hold the leadership and the CEO responsible for those bad actors if they exercise due diligence. They take steps, maybe the seven steps of the Federal Sentencing Guidelines, or they put programs in place. Now this type of programmatic approach is only reliable and effective insofar as you believe that these programs are good and adequate proxies and surrogates of the character or culture of the company itself. You have to believe that this is a good proxy.

What is happening today in this transparent hyperconnected world is that it is easy to go past the proxy and have a direct relationship with the culture, i.e. the character of the company. For example, a company says we have a hotline or a help line. We make it readily accessible, we promote it, we advertise it, we keep statistics, we respond to phone calls. However, what if someone else shows up and interviews employees and many of them say that they are too scared to call the hotline or don't trust that it's confidential. We now have evidence that there is a culture of fear or mistrust. How much credit should the company get for its programmatic approach – putting the hotline in place and advertising it? That is really what is at the heart of this. Instead of culture organically just evolving, I think first and foremost, leadership is crucial. CEOs and management teams are responsible for building that culture. They are going to get deliberate and explicit about culture. Just like in the quality movement, they are going to sit back and say, "What are all the levers that we can pull simultaneously to strengthen, evolve, reinforce, and guide our culture?" Culture is going to become a deliberate foundational business process and not just something that organically happens. That is why, at LRN, we are focused on helping companies. Companies already have cultures. We don't help them create cultures, we help them foster, reinforce, strengthen and improve the culture they already have. We look at it systematically and bring solutions including

education, engagement, communication and management dashboards, etc. to help companies get systematic about their culture.

You can choose from a spectrum of cultures in my belief. One culture you could choose is *anarchy and lawlessness*, but almost no one chooses that option. The next choice on the spectrum of culture is a culture of blind *obedience*: "Here is your paycheck. Do what we tell you. We want people to just do their job and not ask and not tell." I would say today almost all corporations are beyond that culture. The culture that best describes most companies and most organizations is what I call *informed acquiescence*. In informed acquiescence, culture is relegated to the leadership, to a few professionals like people in human resources and the legal and compliance organizations. Compliance and ethics inform, and, in some cases, train the rest of the company on the laws and regulations of the land, and then company policies and values. In the name of B.F. Skinner, we treat people as rational agents who like pleasure and like to avoid pain. We motivate people through sufficient seeking of carrots and aversion to sticks to comply. When they comply, they often describe themselves as acquiescing. "We are following the company's policies, what my boss wants me to do, the laws of this country." However, they're not necessarily all that in touch with their own beliefs. They're not necessarily embracing experiencing or evaluating actions as an outcome of their own beliefs. With a culture of informed acquiescence, companies build up the bureaucracy and apparatus of compliance. "We need more police, more rules." They can fall into a vicious cycle. However, rules and compliance are necessarily retrospective, and no matter how elaborate the apparatus of compliance becomes, it can never keep up with human ingenuity and the pace of global business.

K.T.: Plus you may actually encourage unethical conduct because you're demonstrating a lack of respect for those people and they get this negative feeling about the organization.

D.S.: Absolutely. They watch Biography channel on TV and they see CEOs that they admire, those who didn't play by the rules, don't get very far in life. However, we have, in many

ways, a highly ambivalent relationship with rules because of where they come from. They come from authority figures. They come from maybe legislatures that we consider imperfect and do not fully respect.

The only way I know how to close this gap is by moving toward a *self-governing culture*. In a self-governing culture, people do the right thing because *not* to do the right thing is no longer a betrayal of the company or authority; it is a betrayal of oneself. For the most part, people honor themselves; they act on their own beliefs and do not like cognitive dissonance. That is what is at the heart of becoming a values-based culture. It is getting people to have the space to act on their own beliefs insofar as their beliefs align with the core values of the company. If you can get that going, you are well on your way to building a strong self-governing culture.

K.T.: This sounds like the culture there used to be when there were honor codes at some of the schools.

D.S.: Absolutely. If you are values based, you do not to rely on as many rules. I have walked into computer labs at companies and they have a rule posted on the wall: “Do not put your feet on the chair. Do not write on the desk.” Does that mean I can write on the chair and put my feet on the desk? Of course not, but you can never develop a rule to cover every eventuality. Why do not we just teach respect? Let us respect company property. If you just had the value of respect, you could do a lot more with it than if you attempted to write a rule for every instance, right? We have become a marketing society. We started measuring brand awareness. We need to get back to brand promise, not awareness. Most companies make a promise to the marketplace and to customers. Employees who believe that they are in the business of honoring those promises are the ones who are adding the most value to a company. That is the ultimate connection between ethics and how you do things and what you do. Companies who do not make a promise do not think they are in the business of keeping promises; tend to be more inwardly focused. An employee said, “I used to be happier here last year. There were more cokes in the refrigerator and they spent more money on me, etc.” I think

companies that focus outside themselves, that really understand that they are here to keep a promise to somebody out there; they are healthier than the ones who are not in the promise making and keeping business. The ultimate power of ethics is to make the connection between what you do, and how you do it.

I often talk about Tom Hanks in the movie *Cast Away*. Everyone I talk to thinks the movie is about indomitable will of the human spirit – about survival. Then I also remind people that in addition to staying alive, Hanks’ character ultimately delivers the FedEx package at the end of the movie. It’s not just about survival; it’s about keeping promises. Brand awareness is that 92% of people are aware of FedEx when they see the logo on a truck that drives by. Brand promise is – do I trust that they are going to keep that promise of getting that package to me when it “absolutely, positively has to be there” overnight. Now a FedEx employee who thinks that he is honoring this promise is going to perform better than an employee who says, “I just deliver packages until my shift is over.” Companies who can make that connection between that promise and the employee practice are the winners in my view. They have healthier cultures because they are focused on the promise to somebody out there. Just like Hanks’ character who was still focused on getting off the island to show up and honor a promise to somebody else.

K.T.: And that is a key for the ethics because you are creating the culture of maintaining promises and respect.

D.S.: I believe, ultimately, people want to win. They want to stand out. They want to be differentiated. That is at the heart of winning over the long term especially in this transparent world where most of our conduct is out in the open.

K.T.: What suggestions might you make for a university course that meets for 3 hours a week for 15 weeks in a semester system or 10 weeks for a quarter format? How should that course be structured to have the biggest impact?

D.S.: First, I am a big believer of Liberal Arts and I would go back to our first set of comments on reframing. You read literature;

you understand how to extend sympathies to other human beings. I think that a Liberal Arts education needs to start to connect with all the ethics in the great works of literature and philosophy and politics, etc. There is a tremendous amount of ethics already in other courses that can be brought out. So it no longer the burden of just a single one semester course, but a continuum uniting all courses.

K.T.: So you advocate more of an integrated approach.

D.S.: Integrated. We must reinforce the issues that are already in literature, philosophy, politics, history and sociology, etc. If I were a university dean or chancellor and ethics became more of a mission, I would say the answer to the problem is not simply getting that one course that everybody takes for a semester and getting that one right. I would also try to bring to life through reframing the ethics that is already throughout liberal education.

K.T.: For example, in our Grad Program, we are trying to carry over several courses and it is hard to get the consistency with the instructors even if you can get the piece that should be handed in Accounting or Finance.

D.S.: Yes. The thing is if you believe that ethics is about wrestling and struggling; it is about a practice; it is about a process; it is about a way of looking at or thinking about things; then even if you do not get all the consistency, just getting students to debate these issues and wrestle with these dilemmas starts to build this ethical athlete muscle, if you will. Therefore, I agree, it is hard to get a faculty to say you handle this issue, I will handle that one. However, just getting in the habit of looking at things through this perspective and this evaluative filter is powerful. Point two, to the extent that we get ethics courses, I would integrate them into other courses. I would find meaningful ways to integrate them to make ethics real – as an adjective – rather than as a noun.

K.T.: And not have separate courses?

D.S.: Also, have separate courses. Just like today, we have a separate compliance and ethics department because we have to build a bridge. In a perfect world, we would not need

them. Just like in a perfect world, we would not need police. If we had self-governing corporate cultures, we would not need a compliance department. However, the world is a little broken. We have gotten into some bad habits. Therefore, I think that today we do need compliance officers and ethics officers in companies to help build a bridge to a better world. What I would encourage them to do is **not** think of themselves as the police of the company, the “internal affairs” enforcement division, or even as the conscience of the company, but rather as the head coaches. They should coach and advise others on how to do it. The role of the professionals and the role of the educator changes from trying to teach ethics, to inspiring and inculcating ethics and ethical culture. I can be your coach, your guide, and I can give you tools and resources to succeed.

K.T.: Now how do I practically do that? Let us say we have a very diverse international class and different value systems. How do I bring ethics, there is not even consistent values?

D.S.: That is the 64 billion dollar question. I’ve been impressed with the work Fons Trompenaar and Charles Hampden-Turner have done on culture. There are countries where one lies on the witness stand to protect a friend, where friendship and loyalty are more a foundation of value than truth. There are companies who want to have a universal, unified code of conduct who do business in countries where loyalty, not truth is a core value. Companies are not trying to be all things to all people. I think that trying to have a universal code of conduct is a worthy goal, but there are ways in practice to still be sensitive to cultural differences without allowing for complete abrogation of values. It is getting that balance right between differences in norms and attitudes, etc., but when push comes to shove, you have to make these values universal, at least within a company.

K.T.: So if you are in Asia or the US or UK it should be the same value systems for your organization.

D.S.: There’s nothing wrong in saying we adhere to absolute standards, regardless of local practices. That we will bribe no one in any part

of the world, for example, even if you are told, “but here that’s just how it’s done.”

K.T.: But then some would say that as a manager you are not exercising your fiduciary relationship to the shareholders.

D.S.: No, maybe short term, but if you have a belief that over the long term you are going to build more value by getting everybody to embrace these values and consistently act on them, I think you have made a different choice to the shareholders. If you are just here to make a quick buck, we might not be the place for you.

K.T.: Do you see academics maybe working in partnership with companies like your own or others to get a more applied sense of ethics to the classroom? It just seems as I look at how many ethics courses are taught now, the focus seems on the theoretical, and I do not know if students leave with the framework of how to even build ethical processes and a culture in an organization.

D.S.: I could not agree more. Again, we are teaching ethics as a noun and not as an adjective. I had the privilege of being invited by the Center for Business Ethics to give a lecture at Bentley College. Much of what I have discussed with you, I will try to share with the students to get them to think differently about ethics. I think there is a fabulous partnership to be had between academics and those of us who are working on the factory floors and the executive suites of companies.

K.T.: Let us say you are trying to be ethical and you get some bad press that could be engineered by a competitor or just groups that may think you are too big. Even though you think, you have taken the ethics high road you can be creamed in the press because many times the press makes the decision whether you are good or bad in the court of public opinion rather than the facts of the case.

D.S.: Many years ago, there were higher standards of independent proof and corroboration in the case of Watergate, for instance. If a company got accused of something or even indicted, you typically had a chance through due process to defend yourself, to appeal, and if you lost, you paid a fine or penalty. Today the accusation is already the

penalty. If you are accused you can lose a billion dollars of market cap before you ever pay a 10 million dollar fine, if you ever are convicted. That encourages the dishonorable accuser. If so much damage can be done accusing somebody, it might encourage the dishonorable accuser to make accusations. I think that is a new challenge that companies are having. I think there could be more dishonorable accusers because the power of an accusation can be so strong and devastating.

K.T.: Plus the personal benefits to those accusers in terms of their own PR perhaps or image.

D.S.: Absolutely, but you know companies with great reputations for doing the right thing have a prophylactic. It is not just PR or spin because it reflects real reality. Accusations of wrongdoing do not stick because it is incongruous with a record of accomplishment – a reputation for doing what is right. They get more of the benefit of the doubt. People cut them slack and withhold judgment. If you do not have a reputation that is strong, however, they might say well of course, we expect nothing less from these people. We are wrestling with a new problem here, but the one thing you cannot do is spin your message. Go to Google and type in “reputation management.” There are about 650,000 hits. People think that they can manage their reputation, but this is wishful thinking. You can only earn a reputation one action at a time.

K.T.: It seems so hard to earn it and so easy to lose it.

D.S.: Yes, very tough to earn it and so easy to lose it. Over time I think people are going to get that you cannot act a certain way and then in the last decade of your life start to manage your reputation. Reputations are set very early today. How you conduct yourself in high school, for example, will show up in college. What you did, what you e-mailed, if you were inappropriate in an instant message will follow you. Therefore, we are setting our reputations very early in life today. That is one of the things I would tell students. You do not get to turn to your reputation and your legacy later. You are setting it now.

K.T.: Does it behoove an organization to be more transparent in what they do?

D.S.: Absolutely.

K.T.: And part of what you would do in terms of developing processes would be set up some up the more transparency issue?

D.S.: And to encourage it and to educate people that transparency is a verb. There is a way to be transparent. There is a way to disclose. There is a way to raise issues. Transparency is something you do. It is a verb.

K.T.: What would be an example of what you might encourage them to do?

D.S.: Well certainly whistle blowing is such a hot provocative term.

K.T.: But some would say that shows a failure of the system to catch on its own.

D.S.: It's encouraging people, giving them the confidence and skills to raise issues in meetings before they require being reported. It is a way to raise ethical issues, a way to stop a

meeting and say before we go on, "have we thought of this, have we given enough attention to this consideration?" You teach people how to bring it into dialogue and discourse early on, before it becomes so out of control. Once again, I return to the idea of training ethical athletes. Just getting people comfortable and good at saying, "hey wait a minute, not so fast, have we thought of this?"

K.T.: You are absolutely right. There is going to have to be some leadership behavior that sets that degree of culture. I wish the best for the fine things that your organization is doing to improve an organization's culture of ethics. Thank you for your insights.