BUSINESS-FRIENDLY ETHICS

EthicalSystems.org makes pioneering research accessible to a mainstream corporate audience

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If any human activity is inherently unsafe, it's flying, as the high death rate among early aviators attests. Yet in the last 50 years, taking a trip on a commercial aircraft has become almost as safe as taking a nap at home. As the accompanying graph shows, the death rate on American commercial aircraft has dropped from around 130 per 100 million passengers in the 1960s to nearly zero in recent years *[see Figure 1]*.

This miraculous improvement occurred because every time there is a crash, the relevant parties work together to take a systems view and figure out what happened. The National Transportation Safety Board (NTSB) sends out a "go team" composed of specialists in eight areas, including engines, air traffic control, weather, and human performance. They identify the cause of the disaster, which is sometimes an interaction of several factors, no one of which would have been fatal alone. They then make recommendations that are not binding, but which the airlines and manufacturers usually follow.

If any human activity is inherently prone to unethical conduct, it is business, bringing together large numbers of unrelated people and paying them to handle vast quantities of money, materials, and information. Yet American businesses by and large function quite ethically. Disastrous crashes are, however,

far more common among American corporations than among American aircraft. Each major crash (such as Enron, and the multiple failures that set off the Global Financial Crisis) causes the public's confidence in big business and/or banks to plunge, as the accompanying figure shows. (Confidence in small business, however, seems, if anything, to profit from scandals in large corporations; see Figure 2 on the following page).

Can the business community take the same systemic approach as the NTSB and the airline industry? Can we cut the rate of ethical failures and scandals by 90 percent?

Let's try. Over the last year, many of the leading researchers who study ethics in organizations (joined by a few practitioners) got together to create the website www.EthicalSystems.org. We know that our academic papers are often unreadable by businesspeople, so we pooled our efforts to create business-friendly summary pages highlighting the most important scientific findings about topics such as how to reduce accounting fraud and conflicts of interest, how to lead for ethics, or how to avoid hiring unethical people.

Let's work through an example. Suppose you are an executive or manager at a company with an ethical culture that is neither exemplary nor terrible. The CEO of your company goes to our site, clicks "The Research" tab, and reads our "Ethics Pays" research page, describing the consistent research finding that good ethics pays off for shareholders in the long run, and tasks you with using the site to do some basic ethical systems design improvements. What would you do?

People prefer to work for ethical companies, and they show greater commitment and give greater effort when they feel that they work in a benevolent climate that values ethics, rather than an egoistic climate that does not.

You might start with our "Books" page (under "Resources"), where you can read detailed summaries of some of the most important recent books on ethical systems design, such as Thaler and Sunstein's *Nudge: Improving Decisions About Health, Wealth, and Happiness* or Heath and Heath's *Switch: How to Change Things When Change Is Hard*. Haven't you been meaning to read these books anyway?

Next, review our "Law" page to get a quick overview of the relevant statutes and the incentives they offer for improved business ethics. You could also read our "Compliance & Ethics Programs" page to get an overview of how such programs work, if you are not already trained in this field, and how managers can gauge the efficacy of their own companies' programs.

Many executives would jump straight to our "Leadership" page. There you'll learn what it takes to establish an ethical tone at the top. But while a good tone at the top is necessary, it's far from sufficient. Research shows that employees' immediate managers—as well as their peers—have the greatest impact on whether they behave ethically or not.

So how can you improve the tone—and behavior—in the middle, and throughout the organization? On our "Decision Making" page, you'll learn about the "blind spots" and "ethical fading" that often happen when complex decisions get reduced to "business decisions." This page also reviews strategies for mitigating these risks, such as examining and correcting internal reward systems that lead to ethical fading, and creating the kind of "psychological safety" that makes it easier for everyone to talk about ethics.

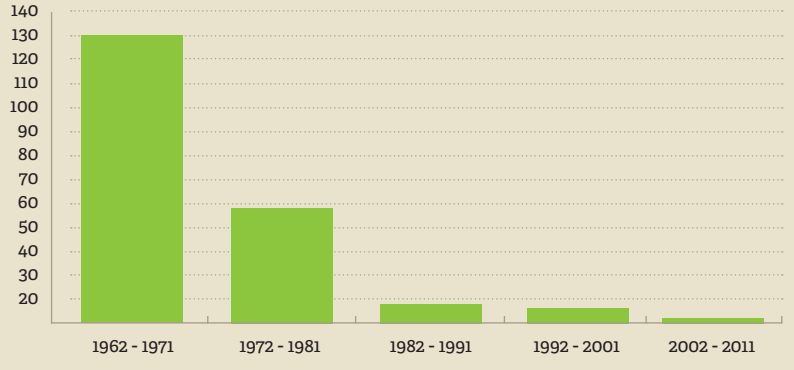
Research shows that most people cheat under some circumstances, and that we are so good at justifying our behavior that we often don't even realize we have cheated. Our "Cheating & Honesty" page will teach you ways to reduce the frequency of cheating, such as requesting pledges of honesty immediately before crucial decisions, or making people a bit more self-conscious by placing mirrors or photographs of people who seem to be watching in the vicinity of the decision maker. Another important strategy for reducing cheating is discussed on our "Contextual Influences" page: you can decrease the likelihood of cheating by showing that most people are honest most of the time.

Our "Fairness" page demonstrates how "organizational justice" can play a critical role in establishing a company's ethical culture. This page explains why it's so important to have transparency in the decision-making process. You must ensure that your company is not just fair in fact, but that it is widely perceived to be fair by employees and other key constituencies.

Figure 1

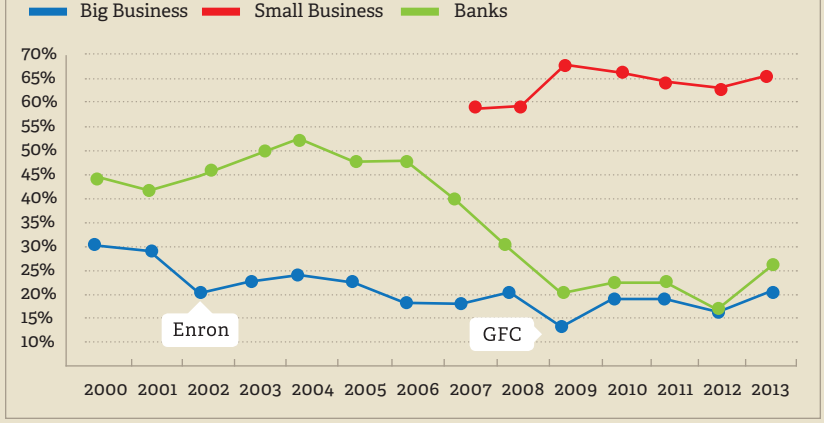
FATALITY RATES: AMERICAN COMMERCIAL AIRCRAFT

Left column: Deaths per 100 million passengers (American commercial aircraft)



Source Figure 1: *NTSB/Bureau of Transportation Statistics*

Figure 2



There are many other components to creating an ethical culture in a business organization. Hiring is certainly one of these. The "Personality & Personnel" page describes much of what is currently known about measuring and predicting who will behave ethically at work—research with important implications for interviewing candidates and developing employees. This page also discusses how recognizing and rewarding employees for their broader contributions, not just individual ones, can promote ethical behavior, an approach that can help the many companies now struggling with the task of making the ethics dimensions of performance evaluations and related measures more effective.

You'd surely want to speak with your Accounting department and make sure they know about the research covered on our "Accounting" page about the most common kinds of distortions—many of which (like earnings management) are often legal—that creep into the accounting process, to the detriment of the firm's long-term financial health.

Additionally, the "Conflicts of Interest" (COI) page, and particularly its discussion of research showing that disclosure can actually *exacerbate* the harmful impact of COIs, should be of use to the various individuals in your company who are tasked with reviewing employee requests for COI approvals.

More broadly, these and various other pages, such as our "Corruption" page, might be helpful to those who design and conduct periodic ethics and compliance risk assessments, as they can help make such processes more attuned to the true nature of risks.

You could also share many of the research pages with staff in the relevant departments, such as:

- Send the "Governance" page to the Board of Directors' Governance Committee, the General Counsel and the Corporate Secretary.
- Send the "Personality & Personnel" and "Whistleblowing" pages to Human Resources Managers, and perhaps to the Board of Directors.
- Send the "Accounting" and "Corruption" pages to the Internal Audit staff and Finance department, and possibly to agents and other third parties.
- Send the "Human Rights" page to the Sustainability and Procurement departments.
- Send the "Negotiation" page to managers in your Sales and Procurement departments.

Such sharing can provide the basis for a broader dialogue on how everyone, and every department, can help to design and implement ethical systems throughout the company. Moreover, many of our pages have links to short videos of the experts who wrote the research pages discussing their research. These videos could be shared not only with staff in the above-mentioned departments, but could also be included in your company's general ethics training (or other types of instruction for employees).

Our goal at EthicalSystems.org is not to force people to "eat their broccoli" and commit to onerous ethical and compliance-based rules. Rather, it is to engage everyone in creating a workplace with higher levels of trust in each other and in leadership. It is to engage everyone in the inspiring task of creating a company that all can be proud of.

Don't forget the research on how Ethics Pays, which is what inspired your CEO to task you with this project. One of the main payoffs is that people prefer to work for ethical companies, and they show greater commitment and give greater effort when they feel that they work in a benevolent climate that values ethics, rather than an egoistic climate that does not.

So please explore EthicalSystems.org and let us know what you think. Tell us how we can make the site more useful to you and your company. Together, we can cut the rate of ethical failure, and restore America's confidence in business.

Author Biographies

Jonathan Haidt *is the Thomas Cooley Professor of Ethical Leadership at New York University Stern School of Business, and the author of* The Righteous Mind.

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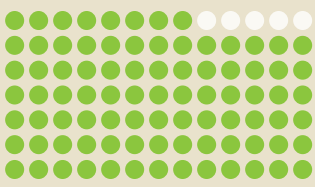
Facts & Figures



In a Stanford University study of 800 MBA graduates from 11 leading European and North American business schools, ***94%*** *of the students reported they would be willing to forgo financial benefits to work for an organization with a better reputation for ethics and corporate social responsibility.*

Source Figure 2: *Gallup data gathered annually in June total of "a great deal" and "quite a lot" responses*