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The Goldilocks Principle and the proper HERO: Perspective on the ethics and compliance mission

BY CARL R. OLIVER, PHD

The Goldilocks Principle has been applied in the fields of astronomy, biology, communication, economics, engineering, mathematics, and psychology. The concept of “just right” is easily understood. If used in business ethics and compliance, it would say some companies’ programs are “too simple,” some are “too hard,” and some are “just right.”

Too simple

Which business ethics and compliance programs are “too simple?”

When I spoke with Jamal Ahmed, he was vice president and chief ethics officer at a \$2.5 billion engineering company with an ethics program that had twice earned an “A” rating from Transparency International. He pointed directly to the answer when I asked him, “If you could change one thing about business ethics, what would it be?” He said, “How people view or define business ethics.”

College students in my Introduction to Business Ethics course frequently tell me they came to the first class comfortable with beliefs that were simplistic. Many people come to the business world with a definition of business ethics and compliance that



is too simple. “For example,” said Ahmed, “sometimes when we investigate a complaint received through our hotline, we are asked, ‘Why is this an ethics issue?’ This is because the person asking the question does not see any violation of ethics, because the matter at hand is not about theft, embezzlement, or non-compliance with company policies or government regulations.”

■
“...BUSINESS ETHICS IS MORE THAN FOLLOWING RULES; IT IS ABOUT DOING THE RIGHT THINGS REGARDLESS OF THE RULES.”

Ahmed went on to describe what would be “just right.”

My goal is to have all business leaders embrace the idea that business ethics is more than just not being fraudulent or non-compliant with laws and regulations. To me, business ethics is doing the right things in everything we do. That includes how we behave with or treat our employees, customers, suppliers, consultants, and all others that we deal with in everyday work life. We strive to have a business environment based on ethical values, not on just following rules. One cannot have an ethical business environment without following rules. However, business ethics is more than following rules; it is about doing the right things regardless of the rules.

It is easy to see companies today with ethics programs that are too simple. They may post corporate values on the Internet, but their employees don’t know or live the values, and don’t even know where to find the list of values. Too many companies, including very large financial corporations, operate their ethics and compliance programs simplistically, in truth focused merely on compliance.

Too hard

Which ethics and compliance programs are “too hard”?

The news media today report stories demanding that people be taught “ethics,” and what they mean is, “teach people the rules, then catch and punish anyone who violates them.” Members of Congress and agencies of the Executive branch sometimes express similar expectations that major U.S. corporations can and should avoid ethics violations. The Sarbanes Oxley Act of 2002 said if executives *could* have known of a problem, then they *should* have known.¹

It even seems natural to a good manager, at some point in the evolution of a company’s business ethics program, for the vision to become one of flawless company ethics: eliminate ethics failures entirely. Why be satisfied with an ethics program that merely reduces or minimizes ethics failures? Classic examples to justify the total elimination approach include: How many newborn babies do we allow an obstetrician to drop by mistake? How many nuclear weapons do we allow to explode by mistake?

Social psychologist Karl Weick and associates studied a similar concept they called

High Reliability Organizations (HROs). They focused on organizations like the U.S. Navy, where aircraft carriers are nuclear powered and potentially armed with nuclear weapons. In that environment, the reliability of people and equipment must be super high, because even a single failure could cause a devastating physical catastrophe. HROs must create processes and cultures that effectively address the enormous physical risk and make the organization safe.

Weick said HROs are not entirely failure free, but they organize to detect problems in the making and stop them from occurring, if they can. If they cannot stop them, then they must at least minimize the damage.²

HERO

Following Weick's lead, could such a concept be applied to business ethics?

A High Ethics Reliability Organization (HERO) would believe the morality of its people must be super high, because even a single failure could cause a devastating ethics catastrophe. It is hard to dismiss such concern when we see the serious impact ethics breaches had in failures such as Enron, Arthur Andersen, Wells Fargo, and subprime lenders.

The HERO concept has natural appeal. It offers an attractive vision of great business ethics and the way people want to live. When I speak to groups, I often ask, "Does anyone here *not* want to be ethical? Does anyone here want to work for an unethical company?"

During more than 20 years, I've had only two people raise their hand. One was a man who had worked for me in the past. When he saw that I saw his hand raised, he called

out, "Just pulling your chain!"—just kidding. The other person was a member of Rotary International, an organization famous for its strong ethical cornerstone called the Rotary Four-Way Test. This was a Rotary breakfast meeting. Other Rotarians seated at his table immediately asked him, "Why are you raising your hand?" He replied, "I just wanted to see what would happen."—just kidding.

So, what would happen if I changed the question a bit? What if I asked, "Does anyone here *not* want to work for a HERO, a company committed to having zero ethics failures?" Would anyone seriously raise a hand? Yes, actually. Some people would object, because they see and fear a downside.

A downside of the HERO concept—a risk—is the specter of perfectionism. Taken to extreme, any mistake would evoke blame and punishment. People don't like that environment. That is an ethics and compliance program that is "too hard."

"Just right" and the proper HERO

"Just right," the middle ground between "too simple" and "too hard," responds to people's preference for companies that pursue excellence, take appropriate risks, learn from



mistakes, and avoid blame or punishment of reasonable risk-takers.³

If we are going to apply the HERO concept successfully, we must search for a proper HERO. The HERO concept emerges as realistic and proper only if it is divorced from perfectionism. Although no company should encourage or even allow employees to violate laws, employees face enough gray areas not clearly resolved by law that necessitate they must make judgment calls—and “judgment” inherently means they are taking a risk.

When a person is found culpable of an ethics error, the “hanging tree” should not be the only remedial option. This reality is supported by collateral evidence developed by a task force appointed by the American Psychological Association (APA) to examine zero tolerance policies developed in the 1980s to stop drug use and curtail unruly and violent behavior in schools. Those policies required severe punishment of any misbehavior and allowed no mitigation based on the student’s intent. A child caught taking aspirin for a headache was punished as severely as one spiking punch with methamphetamines. The APA task force recommended keeping the zero tolerance standard, but tailoring the response to the specific infraction and developing interventions that prevent violations in the first place.⁴

When he was CEO of Northrop Corporation, Kent Kresa made that clear: “Ethics is not about policing. It is about creating the kind of climate in which people are encouraged to make the right decisions in the first place.”⁵ Corporate ethics programs need to be seen by employees as a mentoring function



rather than a policing function. Design business ethics to help people make good, ethical decisions in the first place, and thereby prevent their wrongdoing, eliminate their ethics failures, and eliminate the need to punish anyone. Capitalize on the good values and good will that the majority of employees bring to the job.

Ethics is a tool leaders can use to build mentoring relationships and a trust system throughout their organization. A proper HERO concept must recognize that any company will constantly face a potpourri of small errors and problems, and provide processes to detect, investigate, correct, and learn from them. A proper HERO is a learning organization, not a tyrant. Removing an employee from a job sometimes is necessary, but mentoring is culturally preferred and deserves to be maximized. Our primary concerns should be envisioning the right thing to do and making it happen.

A “just right” ethics and compliance program does not have to be “perfect,” but it does need to be very, very good. The proper HERO concept requires: (a) a culture of safe, open communication up and down the ranks, plus

(b) supportive, protective company processes that help employees make a good decision in the first place. A proper HERO will quickly surface problems so the full resources of the company can correct them while they are small.

Two famous stories illustrate the proper HERO corporate culture. The sourcing of the first appears reliable and the story probably is true. Stanford professor Jeffrey Pfeffer reported some years ago that the Men's Wearhouse company policy was to *not* routinely fire employees caught stealing. Instead, they have a discussion about obligations and offer employees a second chance—an opportunity to develop their own human potential. Those employees emerged as some of the company's most loyal and most effective.^{6,7}

The second story was reported as hearsay by psychologist Edgar Schein, so we can only imagine it is true. IBM president Tom Watson, Jr., summoned to his office a young executive whose bad decisions had cost IBM several million dollars. Upon arrival, the young executive said, "I suppose you want to fire me."

"Not at all," replied Watson. "We have just spent a couple million dollars educating you."⁸

The CEO of a *Fortune* 100 company once confided that he sometimes lies awake at night worrying that an ethical lapse by just one employee—and there were more than 100,000 employees in that company at the time—would jeopardize the survival of the entire corporation. As my colleague Frank Daly says, that is a perverse example of employee empowerment. The power of one employee can be enormous.

Just 15 years earlier, under a predecessor CEO, that corporation's survival was jeopardized by five employees' misconduct. Two went to jail. The company survived by closing a 2,000-employee division and paying more than \$17 million in fines and remediation. That ate all profit the company had earned from sales totaling more than \$100 million.

We may never entirely solve the CEO sleep problem. Employees encounter myriad ethics issues every day. Mistakes likely will be found. But a proper HERO "just right" ethics program can open safe channels for employees to speak up when they see an issue, get help from others in handling it, and make the best decision they can in the moment. If that decision proves to be a mistake, then a "just right" ethics program can detect, investigate, and correct the problem while it is small, and undertake to ensure a process is in place to prevent recurrence of similar problems. ■

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ENDNOTES

- 1 Sarbanes-Oxley Act of 2002, § 302(a)(4).
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