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How to Make Tough Ethical Calls

by Jeffrey L. Seglin

Guest Column

How to Make Tough Ethical Calls

What do you do when both answers are right...and wrong?

by Jeffrey L. Seglin

IN BUSINESS, AS IN ALL THINGS, the difference between right and wrong sometimes doesn't exist. It's often a matter of making the best "right" choice from several options. Making the best decision possible therefore requires rigorous and broad-minded thinking.

In an article I wrote for *Inc.* several years ago, I posed a dilemma, based on a real situation, that got at the heart of how tough making ethical decisions in business can be. A CEO of a $20 million company that repaired aircraft engines received a fax from an airline telling him that eight jets for which his company had repaired engine parts had been grounded because the turbines no longer functioned. The airline was claiming that this CEO's company's parts had caused the problem. Within an hour, he got another call telling him another aircraft had been grounded for the same reason. An hour later, another call came in. In all, 11 planes were grounded because of what the airline claimed were problems with his company's parts.

By the time the CEO received the first fax, the Federal Aviation Administration (FAA) had already been notified. So far, though, the FAA had not stepped in to shut his company down. And, remarkably, his company's name had managed to stay out of the press. If word got out and reached his lenders, the CEO feared they might pull his loans, which equaled his equity in the business. But since the FAA had begun an investigation, he reasoned that there was nothing to do but to sit tight until more details were revealed.

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But as timing would have it, the company was in the midst of its annual audit. As part of the audit process, the CEO and CFO had to sign a letter assuring the auditors that they were informed of any outstanding circumstances that more than likely could have a negative financial impact on the company.

Coming clean on the audit statement might result in the financial demise of his company. "In my industry, there's a very tight code of ethics about the use of drugs or alcohol by a manufacturer's employees," the CEO said. "But there's nothing that tells you how you're supposed to deal with reporting information like this."

So here he was about to sign audit papers while trying to decide whether he was obligated to disclose the information about the failed engines despite the fact that he didn't yet have all the information on exactly what had happened. What should he have done? Disclose the information and risk the livelihood of hundreds of employees and his own stake in the company? Or stay mum until more information was available?

This is a tough one, as reader responses to the article confirmed. But while few of us will face a situation on such a grand scale, it's indicative of the decisions managers must make that have ethical implications, whether it's accepting basketball tickets from a vendor, withholding relevant information when giving a reference, or deciding whether to tell an employee asking you for financial advice that he's about to be laid off.

But there are plenty of exercises designed to help you make the right call. Peter Drucker recommends the "mirror test"—that is, asking, "What kind of person do I want to see when I shave…or put on my lipstick in the morning?" Norman Augustine, former CEO of Lockheed Martin, suggests four questions to ask yourself to help determine a course of action: (1) Is it legal? (2) If someone else did it to you, would you think it was fair? (3) Would you be content if it appeared on the front page of your hometown newspaper? (4) Would you like your mother to see you do it? "If you can answer 'yes' to all four questions," says Augustine, "then whatever you are about to do is probably ethical."

In his book, *The Responsible Manager: Practical Strategies for Ethical Decision Making* (HarperCollins, 1990) Michael Rion, an ethics consultant in West Hartford, Conn., and former director of corporate responsibility for Cummins Engine Company, lays out a six-question guideline for ethical decision making. Looking at how the decision made by the CEO who faced the engine dilemma fits into this framework is instructive:

1. **Why is this bothering me?** The CEO is clearly concerned that disclosing the information will have a devastating effect on his company if word gets out.

2. **Who else matters?** If word does get out, the employees may lose their jobs and the company's investors their invested capital.

3. **Is it my responsibility?** In answering this question, the CEO could look to the FAA investigation and decide it's the FAA's responsibility to determine what happened.

4. **What is the ethical concern?** From a legal perspective, the CEO figured he had to let the FAA know what happened, and it already knew. In terms of fairness and doing harm, the CEO's main concern was ensuring that neither his company nor his employees' jobs were destroyed by something that might turn out not to have been the result of his company's work.

5. **What do others think?** The CEO turned to his lawyers and his board for advice.

6. **Am I being true to myself?** This is in line with the mirror test Drucker talks about. "What do I know about engines?" the CEO asked. "As a businessman, I was looking at this in terms of my survival."

Ultimately, the CEO decided not to disclose the information and signed the audit papers. The FAA eventually found it impossible to determine who was at fault for the engine failures. His company's name was never disclosed publicly as being a possible factor in the groundings.

These exercises can be helpful, but as you can see from the above example, they're ultimately only as good as the people using them. What's missing, for example, in the CEO's response to "Who else matters?" is his concern for the safety of the passengers on the aircraft that used his company's engine parts. Years after the incident, the CEO acknowledged that the passengers' safety never crossed his mind when making his decision. It should have.

And it likely would have if the CEO had taken better measure of his impending decision's external effects. You can think of these effects as falling into three spheres: (1) money, meaning decisions involving capital and finance; (2) people—anybody the company works with, employs, or sells to; and (3) the community at large, the environment, or other bystanders. The goal is to assess how your potential actions will affect each of these spheres.

In the money sphere, the CEO considered that his bankers might call their loans and his investors might lose their equity if word got out. In the people sphere, he expressed concern over what impact disclosure would have on his employees' livelihood; if the banks started pulling loans, the company would have to downsize or shut down altogether. Where this CEO failed to assess the ethics of his decision was in the common-good sphere. He failed to question whether he had a responsibility to the passengers regarding the incident so they could make a decision about their own safety. After weighing this question, the CEO might still have signed the audit papers, calculating that it would be irresponsible to cause panic among passengers before more facts were known. The fact that he didn't ask the question showed a severe lapse in ethical reasoning.

So what is the "right" decision when it comes to signing the audit papers? There isn't one. Neither this nor any other process will provide a one-and-only solution. Different owners or managers facing similar situations could have responded in many ways, depending on the circumstances. And the response to the article from readers ranged from moral outrage at the CEO for being so reckless in his disregard for passengers to bafflement over why anyone would have decided not to sign the audit papers when full information wasn't yet known.

While there is no one "right" answer, going through the process ensures that you've conscientiously examined the effects your decision might have on the relevant constituencies. At some point, you have to make the decision; after all, you've got a business to run. But it's better to run it having weighed the impact your actions will have on the world in which you're operating. ◆

THE SLEEP TEST

One commonly accepted way to gauge if you've made the right decision in the face of an ethical dilemma is whether you can sleep at night. But as Joseph Badaracco Jr. points out in his book *Defining Moments: When Managers Must Choose Between Right and Right* (Harvard Business School Press, 1997), "people sometimes lie awake at night *precisely because they have done the right thing*. They understand that their decisions have real consequences, that success is not guaranteed, and that they will be held accountable for their decisions.…In short, if people like Hitler sometimes sleep well and people like Mother Teresa sometimes sleep badly, we can place little faith in simple sleep-test ethics."

Jeffrey L. Seglin is an associate professor at Emerson College, and author of The Right Thing: Conscience, Profit and Personal Responsibility in Today's Business *(Spiro Press, 2003). He can be reached at MUOpinion@hbsp.harvard.edu.*