with fewer, not more, employees, resulting in a *devaluation* of employees by the corporation.

5. Other than the money that can be earned, work in large corporations has become a less reliable source of satisfaction.[1]

Today's corporate trumpet emits an uncertain sound. The mixed message that leaves employees confused, mistrustful, and fearful of the future is a symptom of a larger problem of ethical failure in leadership—the loss of a moral compass. These business executives are having a difficult time reconciling the norms they bring to their own personal and family relationships with corporate norms and pressures to exceed last quarter's earnings.

III
*Un*enlightened Self-Interest

The current climate of mistrust poisons the atmosphere. It tempts observers to grow judgmental and to blame the ethical scandals on an all-encompassing "culture of corruption." The tendency to resort to punitive legalism creates a mood in which it seems natural to hold jury trials in which highly visible CEOs (yesterday's culture heroes) face the kind of stiff prison sentences that one ordinarily associates with rape and armed robbery.

L. Dennis Kozlowski, the former CEO of Tyco, a giant conglomerate with 270,000 employees and $36 billion in annual sales, is believed to have stolen $170 million from the company. He is also accused of hiding unauthorized bonuses to himself and his chief financial officer, lending himself money from the company and then forgiving the loans so that they didn't have to be repaid, and lying to the public about the company's finances in order to pump up the price of the stock. Charged with grand larceny, falsifying business records, conspiracy, and business law violations, he has received a long prison sentence.

Bernard Ebbers, former CEO of WorldCom, has been convicted of pulling off an $11 billion fraud leading to the largest bankruptcy in American history, with employees and investors as the main victims. The charges against him include conspiracy, fraud, and filing false reports. He received a twenty-five-year prison term.

Richard Scrushy, former CEO of HealthSouth, was accused of "orchestrating a huge accounting fraud," an accusation supported by no fewer than five former CFOs at the company. He was tried in his hometown of Birmingham, Alabama, the beneficiary of much HealthSouth largesse. He was acquitted. Kenneth Lay, the former CEO of Enron is accused of the same fraud on a grander scale. He faces court trial.

Criminal indictments and long prison sentences against former culture heroes may satisfy the public's craving for justice, but they are unlikely to raise the level of business ethics. Legalistic solutions and jail terms are not enough to lead to positive initiatives. A backlash is already setting in, with business groups claiming that excessive regulation is counterproductive, producing "unintended consequences that are having significant negative effects on our economy."[1]

My argument is that instead of a primarily legalistic framework, we should adopt a primarily normative one. We should view the scandals as signs of a weakened system of ethical norms that happens to be particularly severe in the business world, but which is not confined to business. Taking strong legal action against those who wantonly break the law can reinforce ethical norms. But it cannot substitute for them.

One reason for the decline of corporate ethical norms is that the temptations are so huge. But other reasons are more compelling, such as the phenomenon that the psychologist Irving Janis terms *groupthink*. Groupthink is the tendency of people who live and work in isolated subcultures to develop distorted views of the world because they talk mainly with one another, cutting themselves off from the viewpoints of others. In such isolation, misconceptions go unchallenged, blind spots go unnoticed, and wishful thinking hardens into received wisdom.

Groupthink is not confined to the business world. It thrives virtually everywhere, even (or especially) in places like universities that pride themselves on their independent thinking. But the pressures of groupthink in corporate life are particularly powerful. (This is one reason that the concept of "corporate culture" has so much resonance in the business world: its inhabitants are all too familiar with its workings.)

Groupthink forces people toward uniformity of norms, often at the expense of their own personal values. We are all familiar with the seeming paradox of executives who are warm and generous with their families and friends while behaving like cutthroats in the workplace. They live in two different universes of values—observing the cultural norms associated with loving families and close bonds at home, then adopting the norms associated with competitive success in the marketplace. Nor do they feel torn between these conflicting values, since they see each as appropriate for its particular settings and activities.

In other words, once a set of norms takes hold in the corporate world, groupthink ensures that it will become widespread and influential. If the norms are unethical (as seen through the lens of the larger society), they can nonetheless exercise a compelling influence on people who see themselves as highly ethical. This robs society of its two most powerful constraints on keeping average law-abiding people on a straight and narrow path: *shame* and *guilt*. Shame and guilt are the powerful mechanisms that enforce social norms—shame is imposed by one's fellows, while guilt is the distress that arises from violating an internalized code of conduct. As corporate norms have shifted to condone behaviors that were once deemed unacceptable, the kinds of behavior that would inspire shame and guilt have likewise shifted. Yesterday's executive might have suffered guilt from cooking the books; today's might feel shame at showing insufficient tough-mindedness in a business deal.

Which current business norms lead an executive to commit outrageously unethical acts while continuing to maintain a self-image free of shame or guilt? If we understand what these destructive norms are and why they exert such a strong influence on our culture, we will have taken the first step toward stopping the scandals; we will have identified the norms that have to change.

Destructive Norms

It may be useful to clarify what we mean by destructive norms. The concept sounds odd, almost oxymoronic. Norms are positive values. They are the unwritten rules that make communal living possible. As such, they form an inherent part of every society's culture. They represent the forms of behavior that are acceptable or unacceptable in each of the roles people occupy in a society: husband, wife, father, mother, child, parent, neighbor, relative, tribal chief, warrior, employee, citizen, consumer, rich man, mendicant, and so on. In some traditional societies, norms are rigidly, even brutally, enforced (for example, stoning a woman charged with adultery). In our own society, most norms have grown more flexible (for example, the widespread acceptance of unmarried couples living together).

Because norms dictate socially desirable behavior, it may at first glance be confusing to speak of *destructive* norms (un-

desirable behavior). But an instant's thought should clarify the confusion. From the point of view of our culture, stoning women—for any reason—is totally unacceptable; in some fundamentalist societies, it is unacceptable *not* to severely punish women accused of adultery. Clearly, norms vary from culture to culture. Within any culture, we also find wide variations in norms from subculture to subculture—a major source of tension between religious conservatives and other subcultures in our own society. Also, norms often conflict and pull individuals in different directions: the norms governing competition conflict with the norms prescribing cooperative and considerate behavior; the norms of self-expression collide with norms of civility.

A series of conflicting norms of ethical behavior has plunged our society into a state of confusion and disorientation. This is what people mean when they say we have lost our moral compass. They are not saying that the culture has grown evil and mean-spirited (some may believe this, but not the majority). What concerns the majority of Americans today is the suspicion that our traditional norms of right and wrong are being blurred, leaving people confused and easily tempted to go down the wrong path. The corporate scandals that do not involve outright criminality do involve cutting corners, bending the rules, gaming the system, ignoring conflicts of interest, putting one's own interests ahead of others, and seeking to win at any cost. Those guilty of such behaviors do not see themselves as bad people violating society's norms; they see themselves as bold, venturesome, innovative, smart people who are living by the norms of contemporary corporate life and who deserve to reap the rewards for doing so.

It is in this sense that norms may be destructive. From the perspective both of the culture and the individual corporation, some of the newer norms are dysfunctional and destructive. This phenomenon of conflicting norms was clearly on display in the experience of our troops in Iraq. The official norms of the military dictate that prisoner abuse is unacceptable; at the same time a normative climate that encouraged prisoner abuse had clearly been established, with the two sets of norms in confusing conflict with each other.

Seven Deadly Norms

It would be wrong to imply that destructive norms have taken over the business community. This is emphatically not the case. Unfortunately, there is no reliable way to quantify just how far ethically pernicious norms have spread. The truth lies somewhere between "a few bad apples" and "a culture of corruption." The scope, magnitude, and frequency of the scandals do imply that something systemic is wrong. In 2004 the Corporate Fraud Task Force of the Justice Department charged more than nine hundred executives with fraud and obtained more than five hundred corporate fraud convictions. The SEC filed more than six hundred civil enforcement actions involving fraud.[2] This is certainly more than a few bad apples, especially when one realizes that it represents a minuscule fraction of corporate wrongdoing.

On the other hand, there is strong evidence that the taint has not spread throughout business. In many companies, the dominant norm remains the smell test—the conviction that staying within the letter of the law is not good enough and that the company must adhere to ethical standards of right and wrong that go beyond the law. Yet in recent years, a number of dysfunctional norms have crept into the culture, aided and abetted by groupthink. Seven destructive norms converge with

one another to form an *über*-norm that might well be called *un*enlightened self-interest.

I will elaborate on these in later chapters, but here briefly are the seven deadly norms that are causing most of ethical confusion in the nation, particularly in the business community:

1. EQUATING WRONGDOING EXCLUSIVELY WITH ILLEGALITY

To the extent that shame and guilt still operate in our society and are linked to wrongdoing, and to the extent that wrongdoing is linked solely to breaking the law, then one is off the hook simply by staying within the letter of the law. As noted earlier, there is no more corrosive deterioration in today's ethical norms than the conviction that "I didn't do anything illegal, so I didn't do anything wrong."

2. WIN AT ANY COST

The norm that winning is all that matters and that everything else is unimportant pervades the larger society but becomes particularly consequential in corporate settings. Since competition is a dominant theme in business, it reinforces the aggressive urge to win without fussing too much about the tactics for doing so. Corporations often deploy their resources in a zero-sum form of winning: if we win, you have to lose.

Because we have become such a highly individualistic society, the fierce need to win at all costs readily spreads from the company to the individual. We can see this norm at work in countless small instances in our society, from a driver who cuts another off in order to gain a few yards' advantage on a congested freeway to a parent screaming abuse at the coach when his or her child's soccer team loses a game.

3. GAMING THE SYSTEM IS GOOD SPORT

There are large elements of fun and game-playing in seeing how far one can go gaming the system. Enron was full of computer-savvy young people who spent days and weeks with their complex computer models figuring out how to drive up the price of energy artificially (for example, through deliberately closing refineries for maintenance and repair in California to create the maximum bottleneck).

When the desire to beat the system converges with the imperative to win, the result is a deadly combination, ensuring that the energies of gifted young people will be devoted to activities whose ethical consequences are easily shoved into the background.

4. CONFLICT OF INTEREST IS FOR WIMPS

One of the deadliest norms in business today is the tendency to ignore or brush aside conflicts of interest as lily-livered concerns that should not interfere with making as much money as the traffic will bear. This norm is especially flagrant on Wall Street and in the insurance industry, where playing both sides of a transaction has become an art form. Practitioners protect themselves from shame and guilt by developing bland Orwellian language to describe their double-dealing transactions. The phrase "conflict of interest" is itself bloodless and legalistic. It carries none of the pungency associated with plain-talking phrases like "betraying the customer's trust" or "getting kickbacks for pushing clients into the worst performing funds."

The hypocrisy is obvious to Wall Street's own ethically concerned leaders. The celebrated Wall Street analyst Byron Wien has written extensively about "the breaking of the covenant between corporations and investors."[3] Unfortunately, Wien's concerns have done little to change Wall Street's habits.

5. THE CEO AS ROYALTY

In the 1990s CEOs became celebrities, partly for their outsized paychecks and partly because of the dazzling performance of the stock market in the years leading up to the bursting of the bubble. Little need be said here about the corrupting influence of money, power, and adulation. It has all been said before. Power goes to people's heads. Few can handle it well. The usual response is arrogance and the conviction that your whims should be instantly indulged, no questions asked. There is no other explanation for the excesses of people like Kozlowski, the Rigas family, Lord Black, Kenneth Lay, Bernie Ebbers, Franklin Raines, and countless others.

The destructive norm here is the assumption that the power and grandeur of the CEO is so great that he (and sometimes she) is exempt from the norms that ordinary mortals are forced to observe.

6. TWISTING THE CONCEPT OF SHAREHOLDER VALUE

This deadly norm is specific to business, which I discuss at length in Chapter 8. The rationale usually given for putting shareholders first is that by serving the long-term interests of committed investors, the company also serves the interests of its other stakeholders—employees, customers, suppliers, local community, the society at large. In practice, however, shareholder value does not live up to its rationale because it suffers from two crippling distortions. The more obvious distortion is the emphasis on short-term quarterly earnings reports—the ones that clever accountants can most easily manipulate. The less obvious but arguably more serious distortion relates to the identity of the so-called "owners." The phrase conjures up images of Warren Buffet–type investors who buy and hold their stock for the long haul, or of Grandpa in Cleveland whose retirement is made comfortable by the dividends the stock pays. In practice, shareholder value has little to do with committed investors and owners of the company's shares, and everything to do with thirty-year-old mutual fund managers with zero loyalty to the company who can and do dump the stock without a second's hesitation. They are short-term renters of the stock, not committed owners. In both cases, there is a destructive shift from a long-term to a short-term focus.

In combination, these distortions make a mockery of shareholder value's stated intention of aligning the interests of management more closely with those of the company's "owners."

7. FREE-MARKET ECONOMIES REQUIRE DEREGULATION

This is perhaps the subtlest of the seven deadly norms—and some scholars believe it is the deadliest.[4] It ties into the laissez-faire strain of the capitalist tradition. Executives hold highly abstract and theoretical assumptions about the nature of corporations and market economies. One such assumption is the image of the corporation as an impersonal machine. Driven by

inexorable laws of profit maximization, these corporate machines cannot afford constraints like regulation or sentimentality about people's feelings and lives. This notion that the corporation runs according to inescapable, impersonal, and rigid economic laws has fostered a great deal of ill-advised deregulation, as well as rigidity, inflexibility, and undue suffering.

The experience of many nations, especially our own, has demonstrated that a market economy is not a machine with a fixed inherent nature but a system that can be remarkably flexible. The position of CEO in a large multinational corporation is the pressure point in the system. It is where all the conflicting and contradictory pressures of the modern global economy converge. This makes the job of the CEO immensely complicated. But it also makes it compelling and important. CEOs are the change agents of the emerging global economy.

A free-market economy is not well served by the automaton CEO who identifies totally with the notion of a market-driven enterprise as a machine that cannot, and should not, be constrained by regulation. It is well served by the very human CEO who brings his or her own well-developed ethical values into the job and calls upon these for guidance in juggling corporate cross-pressures.

In subsequent chapters we will return in one way or another to each of these seven deadly norms. For present purposes, however, I would underscore a single point. The combined effect of these seven norms is undermining traditional American adherence to the principle of enlightened self-interest—the notion that one can do well by doing good. Compositely, they lead instead to *un*enlightened self-interest—that one should do well at all costs and forget about doing good. Admittedly, enlightened self-interest is a tough guide to follow: it requires a conscious effort to integrate personal advantage and larger social benefits. But unenlightened self-interest is a disaster for institutions that are meant to serve the needs of the larger community.

IV
Yesterday's versus Today's Ethical Norms

These seven deadly norms can be grouped into two broad categories—norms that come from within the business community and norms rooted in the general culture. The business norms are the "shareholders-come-first" norm that focuses on who the main beneficiaries of corporate success should be, and the "let-business-be-business" norm that leads to deregulation.

The shareholders-come-first norm derives from a shift in corporate culture that is only a few decades old. The norm that the laws of the free market brook no interference, intervention, or regulation is much older. It derives from economic theories that go all the way back to Adam Smith. The premise here is that if you monkey with the iron laws of market capitalism, be it through government regulation or capricious management practices (such as selling below cost, or being overly generous to employees), you will ruin the enterprise. There is certainly some validity to this observation, but it is subject to distortion and overstatement.