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THE CHALLENGE OF SUSTAINING CORPORATE CONSCIENCE†

KENNETH E. GOODPASTER*

We can understand character better when we see it as the product of self-preserving efforts to deal with inner impulses and external demands. In both personality and institutions "self-preservation" means more than bare organic or material survival. Self-preservation has to do with the maintenance of basic identity, with the integrity of a personal or institutional "self."¹

Leaders must think not only descriptively, but also prescriptively about corporate values. To do so, it is not sufficient simply to produce a corporate code or credo. What is more important is the state of mind—the mindset—that lies behind the formulas, and the policies and practices that give the formulas their operational meaning. Leaders must learn how to identify and, where needed, to modify an organization's mindset. Once they have done so, they face the challenge of sustaining those values over time. This latter challenge will be our principal focus in the main body of this article (Parts II, III, and IV). In the introduction (Part I), we will set the stage.²

PART I: AN ETHICAL TYPOLOGY

There are three broad patterns by which rational self-interest can be combined with respect for others, whether the mindset be that of an individual or of an organization. The first of these patterns completely subordinates ethics to self-interest as a means to an end, whereas the second and third patterns give more attention to ethical values in corpo-

† Copyright © 1987 by Kenneth E. Goodpaster. All Rights Reserved.
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2. The typology presented in Part I is also presented and discussed in the context of empirical value measurement in Goodpaster, The Moral Agenda of Corporate Leadership: Concepts and Research Techniques, Proceedings of the 1986 Donald S. MacNaughton Symposium, Syracuse University.
rate policy, albeit in different ways. Each pattern shows some internal variation while maintaining a distinct logic of its own. I shall refer to them as follows: Type 1 thinking (ethics as a means to self-interest); Type 2 thinking (ethics as an external constraint); and Type 3 thinking (ethics as an end). Case illustrations will allow us to explore each of these patterns.

**Type 1. Ethics as a Means to Self-Interest**

Among the most natural ways of combining or relating two basic values for guiding conduct is to treat one as a means to the other. Thus we can imagine an individual maintaining that his basic value is to look out for himself in a rational way, and that one of his means for doing so is to be respectful of other persons most of the time. I will refer to this as Type 1 thinking. Organizations might exhibit a similar mindset. The belief would be that respect for others, like honesty, is often "the best policy."

A Type 1 view of the relationship between self-interest and ethics may have been in the mind of business consultant Albert Z. Carr when he compared business to a game of poker. In an article entitled "Is Business Bluffing Ethical?" Carr wrote:

To be a winner, a man must play to win. This does not mean that he must be ruthless, cruel, harsh, or treacherous. On the contrary, the better his reputation for integrity, honesty, and decency, the better his chances of victory will be in the long run. But from time to time, every businessman, like every poker player, is offered a choice between certain loss or bluffing within the legal rules of the game. If he is not resigned to losing, if he wants to rise in his company and industry, then in such a crisis he will bluff—and bluff hard.8

Honesty or ethics seems here to be instrumental to "winning," that is, to be valued as a means. To be sure, law is mentioned as a constraint, but Carr may be implying that avoidance of legal sanctions is simply in one's interest, motivated by self-protection rather than by moral considerations.

This way of joining ethics to self-interest accords no authority to respect as an independent value. 4

A case that illustrates the Type 1 mindset comes from research on the export of hazardous chemicals. 5 In 1977, workers at a plant in California that produced a pesticide called DBCP were found to be sterile, whereupon the state canceled the use of DBCP within its jurisdiction. Several major companies stopped producing DBCP immediately. In 1979 the EPA canceled all uses of DBCP (except for use on Hawaiian pineapples) because it was suspected of being carcinogenic.

After the ban, the American Vanguard Corporation (Amvac) could no longer sell DBCP directly to American companies, but it did continue to export it. The company's 1979 10-K report noted that the principal manufacturers and distributors of the product (DOW, Occidental, and Shell Chemical) had, temporarily at least, decided to remove themselves from the domestic marketplace and possibly from the world marketplace. 6

The report continued:

Notwithstanding all the publicity and notoriety surrounding DBCP, it was [our] opinion that a vacuum existed in the marketplace that [we] could temporarily occupy. . . . [We] further believed that with the addition of DBCP, sales might be sufficient to reach a profitable level. 7

In this instance, Amvac management gave ethics merely instrumental status. Self-interest (in the form of profitability and competitive advantage) was the governing mindset value, with concern for workers, consumers and the general public relegated to a subordinate position.

Type 1 thinking is present wherever respect-oriented values are managed with an eye to rational self-interest as the overarching value. It is important to emphasize, however, that this need not mean ignoring others. Some interpretations of "issues management" and "public relations," for example,

4. Many philosophical frameworks specify ways to build ethics into practical decisions. They are treated here under the heading of respect for others in contrast to rational self-interest. For a detailed analysis, see J. Matthews, K. Goodpaster, & L. Nash, Policies and Persons: A Casebook in Business Ethics 492-522 (1985) [hereinafter Matthews & Goodpaster].
5. Id. at 467.
6. Id.
seem to fit the Type 1 pattern, at least when their sole basis is corporate self-interest.

Type 2. Ethics as an External Constraint

Type 2 thinking incorporates respect for others not merely as a means to rationally chosen ends but as a constraint on the choice of those ends. There are two distinct subtypes. The first, the invisible hand pattern, looks primarily to market forces as a surrogate for morality; the second, the visible hand pattern, to political and legal forces.

Type 2a. The Invisible Hand Pattern

Some persons accord importance to ethics in business decision making, but quickly insist that ethics are built into the competitive system. In what we shall call (remembering Adam Smith) the invisible hand pattern, special attention to ethics becomes redundant. Conscious efforts to behave ethically are viewed as foolish, even morally suspect. Nobel laureate Milton Friedman often seems to endorse this way of thinking. In an article whose title, "The Social Responsibility of Business is to Increase Its Profits," almost proclaims the invisible hand view, Friedman wrote:

In [many cases], there is a strong temptation to rationalize actions as an exercise of "social responsibility." In the present climate of opinion, with its widespread aversion to "capitalism," "profits," the "soulless corporation" and so on, this is one way for a corporation to generate goodwill as a by-product of expenditures that are entirely justified in its own self-interest. . . .

. . . If our institutions, and the attitudes of the public make it in their self-interest to cloak their actions in this way, I cannot summon much indignation to denounce them. At the same time, I can express admiration for those individual proprietors or owners of closely held corporations or stockholders of more broadly held corporations who disdain such tactics as approaching fraud.8

At another place in the same article, however, one senses a different, but related, point of view. Quoting from his book Capitalism and Freedom, Friedman wrote:

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There is one and only one social responsibility of business—to use its resources and engage in activities designed to increase its profits so long as it stays within the rules of the game, which is to say, engages in open and free competition without deception or fraud.

This second passage seems, like the first, to imply that ethics is not just a means to self-interest. But apparently more weight is placed on social and legal constraints than on market forces alone. The "rules of the game" serve as a moral authority beyond the market—noneconomic surrogates for conscience. Thus, Friedman's conception of corporate social responsibility is formed not only by constraints of the market, but apparently also by external social and legal constraints. I shall identify these latter constraints as "visible hand" constraints, discussed below as Type 2b thinking.

Type 2b. The Visible Hand Pattern

Type 2b thinking relies on noneconomic forces outside the organization to secure certain values without direct managerial involvement—a "visible" rather than an "invisible" hand. A corporate leader with this kind of mindset might be committed, for example, to the importance of both cost control and environmental protection, but might not pay as much attention to the latter as to the former. He or she would view business ethics as "playing by the rules" laid down by local laws and customs. In the area of environmental protection, ethical conduct would be that—and only that—conduct which is required by the EPA.

Externalizing moral judgment in this way is not the same as subordinating ethics (as a means) to rational self-interest. But it does mean placing responsibility for moral judgment outside the manager's principal (economic) concerns. (We might say that the Type 2b leader acknowledges authority, but not accountability, when it comes to ethical values.)

Type 2 thinking in both of its versions can be seen in the case of a tough-minded president of a New England air-compressor firm. An idealistic MBA from a well-known business school had recently been hired to direct the company's Committee on Corporate Responsibility. After making a number of suggestions for change, including more attention to consumer safety and withdrawal from South Africa, the MBA
was stunned by the president’s reply:

As far as the safety of our products and other demands consumers might make, that’s all done through the marketplace, as you will come to understand. If our products were not safe or durable they wouldn’t sell... . It’s our responsibility to decide after careful market research what the air-compressor needs of America are and will be in the future. We don’t need a special panel of bleeding hearts to lead us along paths where we are already expert.\(^\text{11}\)

The president then fired a second blast:

As for our selling operations in South Africa, I’m afraid you just don’t know what you’re talking about. As long as there is no plank of American foreign policy or Federal law which tells corporations where they can and where they can’t sell their products, American businesses must depend on the free market system.\(^\text{12}\)

The president’s first response was a Type 2a comment, the second response a Type 2b comment. Chagrined and confused, the young executive walked out believing that while his superior may have cared about corporate responsibility, the type of thinking he showed (ethics as an external constraint) was inadequate.

\textit{Type 3. Ethics as an End}

According to Type 3 thinking, neither the invisible hand nor the more visible hands of government, labor or the media are sufficient to secure respect for others. Rational self-concern is not ignored, but concern for others guides the leader’s consciousness. This way of thinking not only refuses to see ethics as merely a means, but also rejects surrogates for conscience in the form of external constraints. Managerial accountability for ethics goes hand in hand with a recognition of its authority.

The prologue to a statement of beliefs developed by Chairman James Beré of Borg-Warner Corporation reveals a mindset rooted in Type 3 thinking:

Any business is a member of a social system, entitled to the rights and bound by the responsibilities of that membership. Its freedom to pursue economic goals is constrained

11. \textit{Id.} at 55.
12. \textit{Id.} at 55-56.
by law and channeled by the forces of a free market. But these demands are minimal, requiring only that a business provide wanted goods and services, compete fairly, and cause no obvious harm. For some companies that is enough. It is not enough for Borg-Warner. We impose upon ourselves an obligation to reach beyond the minimal. We do so convinced that by making a larger contribution to the society that sustains us, we best assure not only its future vitality, but our own.  

As the last sentence indicates, Beré does not abandon enlightened self-interest. But he also affirms the equal importance of ethical values. The implication is that the respect for others which is reflected in Types 2a and 2b thinking is minimal, even if crucial. The company sees itself as accountable in a way that goes "beyond the minimal."

**Sustaining Corporate Conscience**

In what follows, we will examine some of the challenges that confront the corporate leader who would institutionalize and sustain a Type 3 mindset in his or her organization. This task, when it is directed toward organizational members and subgroups, includes such activities as management selection and development, performance evaluation, executive succession, and (in the case of large corporations) acquisition and divestiture of business units. When it is directed toward the wider socioeconomic system, the task of sustaining corporate values includes business communication and public relations, advertising, business-government relations, and international business activities.

Sustaining corporate conscience has to do with leadership actions aimed at congruence—what Chester Barnard referred to as "fit"—between the mindset of the organization and the mindsets of both its future leaders and its wider institutional environment. Without some degree of ethical fit or congruence, the corporate mindset simply cannot survive or replicate itself.

*Part II* introduces the concepts of mindset stability and degrees of fit among mindset types. In *Part III*, these concepts are illustrated using case studies from actual business

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practice. Part IV presents (and seeks to resolve) a practical and philosophical paradox associated with the search for mindset stability.

**Part II: Mindset Stability and Degrees of Ethical Fit**

It is essential for sustaining a company's culture that the values of its future leaders (personal or micro-values) and the values of its surrounding community (economic, political, and social macro-values) be "hospitable" or congruent. These are the main factors that tend either to resist or reinforce the corporate conscience. But if some degree of ethical fit is needed, the question naturally arises: How much? In answer to this question, leaders must consider a spectrum of alternatives, ranging from low through medium to high degrees of congruence.

In the low range, there is little or (at the limit) no fit—either between individual values and organizational values or between organizational values and the values of the wider social system. From the point of view of the individual in the organization or the organization in the community, the low range implies a maximal degree of pluralism and a minimal degree of congruence. Looking in the other direction, from the system to the organization and from the organization to the individual, low-range fit implies a kind of ethical decentralization, to the point of value anarchy. Sustaining an organizational mindset seems impossible in this range, since the forces tending to dismantle it (ethical analogues to entropy) are at their strongest both from within and from without the corporation.

In the high range, there is almost perfect fit among mindset levels. The individual is an ethical "organization person" and the organization is in strict ethical accord with its surrounding system. We might expect stability in such circumstances, but stability is not the inevitable result. If, as seems likely, the price of such high congruence is rigid enforcement, stability may or may not be the ultimate outcome. On this score, it is useful to study totalitarian systems and organizations that imitate totalitarian practices in relation to the individual. The rigidity, perhaps even tyranny, of the high range stands in dramatic contrast to the ethical anarchy of the low range.

The medium range strikes varying points of balance between too much and too little congruence. Corporate leaders seeking to achieve this range will try to respect individual
moral autonomy but will limit such autonomy to within the boundaries of a reasonably well-defined corporate value structure. Likewise, corporate moral initiative in the wider value system will be encouraged but may also be restrained.

The ranges described above help to clarify the idea of mindset stability, much as the typology in Part I clarified the idea of mindset orientation. These ranges provide a logical map of the generic options without prescribing which option should be pursued in a given corporate environment.

An Image for Understanding Mindset Congruence

A corporate mindset might or might not resemble either the mindsets of key individuals within the organization or the institutional structures surrounding the organization. Such a phenomenon was explored visually by the Dutch artist M.C. Escher as shown in Figure 1 below. Escher’s study of “Fishes and Scales” suggests three features of mindsets that we can use to interpret mindset stability: they are nested, self-similar, and dynamic. Nesting refers to the existence of mindsets within mindsets, as in the case of individual mindsets existing within a corporate mindset. Self-similarity refers to the congruence of nested mindsets; that is, the degree to which individual mindsets resemble corporate mindsets, and corporate mindsets resemble the mindset of the wider community. Finally, dynamism concerns the flexibility of mindsets, and ultimately the evolution of mindsets over time.

The active figures are drawn at different scales with a medium degree of similarity to one another, like the ethical values of individuals within organizations within a surrounding social system. The artist avoids dissonance between levels as well as suffocating conformity.

15. Escher’s fascination with nested figures has been pursued to a high level of sophistication in recent years by the fractal geometry of Harvard mathematician Benoit Mandelbrot. The notion of fractal “self-similarity” is described in Goodpaster, Toward an Integrated Approach to Business Ethics, THOUGHT, 161 (June 1985).
The Escher image prompts two particular questions in connection with leadership and value stability. First, what is an appropriate degree of "value tolerance" in an organization, avoiding both indifference and dogmatism? And second, what is an appropriate degree of "value tolerance" in a social system made up of organizations and institutions?

These questions, when approached from the perspective of the more embracing group looking inward, call to mind classical issues in political and legal theory, particularly questions about the merits of constitutional democracy, due process, and pluralism.¹⁶ What limits can society legitimately place on corporations (and corporations on their members) in view of the exclusively economic function that has traditionally defined their relationships in the past? Are these limits changing? How and why?

¹⁶. For an extended discussion of these classical issues in political and legal theory, see Chapters 1 and 2 of H.L.A. HART, LAW, LIBERTY AND MORALITY (1963).
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Approached from the opposite direction, from the perspective of the individual or the organization looking outward, these questions call to mind such issues as free expression and free assembly, as well as civil disobedience. Do members of organizations (and organizations themselves) deserve broader protections than those currently accorded by law? What does this mean for the traditional “termination at will” doctrine? or “whistleblowing”? or civil liberties in (and of) the corporation?17

PART III. MINDSET STABILITY IN PRACTICE

In Part I, cases were presented to clarify each of the mindset types in various business settings. Here we will use cases to illustrate different degrees (low, medium, and high) of ethical congruence and to examine the implications of various levels of mindset stability for such issues as employee rights and public/private sector relationships. Part IV will then address the problems which arise in both the low range and the high range of congruence, especially when a Type 3 mindset is the leader’s goal.

From the perspective of top management, the sources of mindset stability (or instability) can be classified under the headings of microfits, the relationship between the organization and its members, and macrofits, the relationship between the organization and the wider community.

Microfits: The Organization and Its Members

In relatively small, entrepreneurial organizations, where the influence of the leader is most direct, a company’s mindset (whether it includes respect as a fundamental value or not) depends primarily on the values of the person at the helm. In such companies, passing on the corporate mindset to the next generation amounts to identifying and grooming a successor for the president who will preserve the company’s value orientation.

In large organizations, however, this task is much more complicated. While the leader of a large corporation must be

17. Some observers believe that the courts are departing from a laissez-faire posture and moving toward a more intrusive one on issues of free speech, privacy, and freedom of conscience. David Ewing argues for “constitutionalizing” the corporation as an alternative. Ewing, *Civil Liberties in the Corporation*, 50 N.Y. St. B. J. 188 (1978). Recent debates over employee drug testing illustrate the strong forces on both sides of this issue.
concerned with choosing and grooming a successor, he or she must also attend to the development of subordinate managers. "[A]s an organization grows larger and as operations become more decentralized," Kenneth Andrews points out, "the power and influence of the chief executive are reinterpreted and diffused."\(^8\) There must be a pool of talented managers who are capable of joining rationality-oriented (self-interest) values to respect-oriented values in a way that preserves with some degree of fidelity the convictions of the chief executive officer. Developing and maintaining this pool is an ongoing leadership challenge.

I am aware of one chief executive of a Fortune 100 company who has responded to this challenge with great care and self-awareness. Not only does he monitor personally and regularly the progress of seventy-five key managers in his corporation, he does so with explicit attention to the congruence between their beliefs and attitudes and the overall corporate value system. In one instance, an otherwise very strong executive who was considered in line to be C.E.O. was asked to resign for reasons related directly to his cynicism about the company's stated philosophy of human values. It should be added that the executive's resignation was requested with the full understanding, counsel, and support of the board of directors.

Another chief executive officer has worked with his board of directors in developing a set of criteria for appraising the character traits and qualifications of candidates for leadership roles in the corporation. The criteria include not only experience, intelligence, and economic performance, but also integrity, maturity, balance, and community service.

In both of these cases, the leaders involved were, by their own accounts, protecting and sustaining a mindset that they had helped create in their organizations. Two other illustrations may help to clarify the leadership implications of seeking mindset stability from within, that is, of achieving microfits.

The first involves Velsicol Chemical Corporation, a Chicago-based multinational.\(^9\) Velsicol had a reputation before 1978 as a "corporate renegade that seems totally lacking in

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public responsibility." Its management was eventually reformed by Ben Heineman, the president of its parent company, Northwest Industries. Heineman remarked candidly after implementing certain changes that he should have acted sooner:

When [Velsicol's former C.E.O.] was making speeches personally attacking the administrator of EPA, I did take a position that I was not going to interfere in the chief executive's activities in connection with his own company—even though based on many, many years of government experience I thought they were extremely foolish. . . . I probably made a significant mistake in applying our decentralization policy to anything that sensitive.

Heineman's experience illustrates the importance of what we are calling microfit between corporate values and the values of key persons and business units. Heineman apparently saw himself as having gone too far toward what we have called low range mindset congruence, to the point where corrective intervention was necessary. The leadership of the parent company brought the mindset of the subsidiary into alignment, from one in which respect seemed to be merely an instrumental value, as in Type 1 thinking, to one in which Type 2 or Type 3 reasoning predominated.

It is interesting to note as a second case illustration and as a prelude to the next section that some corporate leaders have drawn a sharp ethical line between microfits and macrofits. One such leader was Arthur Wiebel, President of Tennessee Coal and Iron (TCI), a division of United States Steel Corporation (U.S. Steel). In the 1960s, Weibel, both as a private citizen of Birmingham, Alabama, and as an able leader of TCI, was very active in support of civil rights for blacks. He initiated broad changes in discriminatory labor agreements and sent strong signals to managers and employees regarding fairness in hiring, promotion, and job assignments within the company. He sought energetically a fit between his own values and TCI's commitment to racial justice within the company.

But when asked obliquely by the Kennedy Administration to use TCI's substantial influence to improve racial justice in the Birmingham community, Wiebel backed away. In

20. *Id.* at 2.
21. *Id.* at 3.
22. MATTHEWS & GOODPASTER, supra note 4, at 173.
the words of U.S. Steel’s Chairman of the Board Roger Blough:

[As individuals we can exercise what influence we may have as citizens, but for a corporation to attempt to exert any kind of economic compulsion to achieve a particular end in the social area seems to me to be quite beyond what a corporation should do and quite beyond what a corporation can do.

I believe that while government . . . may seek to compel social reforms, any attempt by a private organization like [TCI] to impose its views, its beliefs and its will upon the community . . . would be repugnant to our American constitutional concepts, and that appropriate steps to correct this abuse of corporate power would be universally demanded by public opinion.]

Wiebel apparently had two different standards regarding value fit between a company and its employees, on the one hand, and value fit between a company and its surrounding community, on the other. Debates during the 1980s about responsible business activity in South Africa suggest that the “TCI issue” is still very much alive.

Let us now take a closer look at the challenges facing the corporate leader (both nationally and internationally) when it comes to external value congruence.

**Macrofits: The Organization and the Wider Community**

A stable corporate mindset requires not only the achievement of reasonable fit between the values of an organization and those of its present and future leaders, but also a reasonable fit in the direction of the larger network of organizations and institutions that we refer to collectively as “society.” Just as one would expect an individual in an organization to have some impact, however limited, on the values of the organization as a whole (even if the influence of the organization on the individual is likely to be stronger), so it is with an organization in its community.

In order for corporate values to continue for any significant period of time, they must not only be affirmed by individuals in leadership positions who share those values but they must also be supported from the outside by a value sys-

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23. *Id.* at 179.
tem that accords them validity and respect. Otherwise, those values probably will be undermined by the law, the regulatory process, industry competition, and public pressure. This was the principal argument used by critics of Arthur Wiebel's position in the TCI case.

Corporate values within the social system, like individual values within the organization, can have very real influence. To return to the example of South Africa, corporate signatories to the Sullivan Principles have sought to avoid the dilemma of choosing between complete disinvestment and contributing to what most regard as social injustice. Dresser Industries decided after much controversy that it could not or would not seek such influence. IBM, on the other hand, took a different approach. Although it refused for many years to close down its operations in South Africa, it reaffirmed a policy of working for social change from within, both independently and through its commitment to the Sullivan principles. In 1986, IBM sold its subsidiary, but continued to sell products through the newly independent South African company. Other companies have pulled out entirely, believing that their continued business activity in South Africa only served to reinforce the status quo.

One of the corporations mentioned earlier as an illustration of the microfit issue, Velsicol, also faced the issue of macrofit. During 1983 and 1984, the "new" Velsicol attempted to initiate industry self-regulation in the export of hazardous chemicals by proposing a "One World Communication System" for pesticide labeling. The idea was to cre-


25. See MATTHEWS & GOODEASTER, supra note 4, at 430.


27. See I.B.M. is Shedding South Africa Unit; Pressure is Cited, N.Y. Times, Oct. 22, 1986, at 1, col. 4.

28. See, e.g., G.M. Plans to Sell South Africa Unit to a Local Group, N.Y. Times, Oct. 21, 1986, at 1, col. 3 (reporting that on October 20, 1986, the General Motors Corporation announced that it would withdraw from South Africa by selling its operations there to a group of investors led by local G.M. managers. In a statement, G.M. Chairman Roger B. Smith said: "We have been disappointed in the pace of change in ending apartheid. Decisions about our investment in South Africa have depended on our assessment of the economic, social and political environment there."

29. See K. GOODEASTER & D. WHITESIDE, VELSICOL CHEMICAL CORPORATION, supra note 19, at 6.
ate an industry-wide system of pictograms to convey information on the safe use of pesticides—especially for the small farmer who was illiterate or could not understand the precautionary information on current labels. The development of this idea was evidence of the shift in mindset that Velsicol had undergone during the previous decade.

The social values of both the industry and the regulatory environment were not, however, congruent. Enthusiasm for Velsicol's initiative was not sufficient to move the idea forward, with the result that the CEO decided on economic grounds not to continue the project. A number of managers, discouraged by this decision, left the company. It appears that the company was pursuing Type 3 thinking while others in the industry, and the government, were marching to a different drum.

The lesson is that accommodation or fit between the organization and the wider system seems desirable, and that some companies may succeed in influencing this fit while others may not. Arthur Wiebel's views notwithstanding, corporations sometimes can, and therefore sometimes should, seek to positively influence moral views in the wider social and economic system.

### Balancing Microfits and Macrofits

The cases we have been discussing are not simple ones. Their complexity derives from the fundamental values that come into play, and from the tensions that arise when internal and external pressures conflict. Another powerful illustration of this complexity can be seen in the classic case of "The Individual and the Corporation."

After John F. Kennedy was assassinated in 1963, Donald Singleton, senior vice-president of a large oil company based in Dallas, Texas, wrote an article for *Look* magazine reflecting on the meaning of the event. He took a position that caused vexation in the Dallas business community. Although Sin-

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30. **Matthews & Goodpaster, supra note 4, at 61.**
31. In the article, Singleton suggested that the conservative attitudes of Texas businessmen and a preoccupation with economic success were responsible for Kennedy's assassination in Dallas. Singleton wrote:

> For all I know, other cities have our disease, too, but the epidemic broke out here. Maybe the President could have caught it anywhere, but he caught it here. Here is where the quarantine sign is, and I don't think it will ever really come down until we take it down ourselves.

Singleton, *Memo From a Dallas Citizen*, Look, March 24, 1964, at 88; re-
Singleton did not mention his business affiliation in the article, the company received a number of negative letters and some customers even returned credit cards. Singleton himself received numerous letters and phone calls, most of which praised his insight and courage. However, the pressure on the company from the community eventually led to Singleton's resignation. Singleton told the *Dallas Morning News*:

> When I resigned, . . . the impression got around that [the company] asked for my resignation because it disagreed with what I wrote. This is not what happened and obscures the basic decision that most company men have to make, at one moment or, more likely, on the installment plan.

> About a month after the article, and hours after the *Dallas Morning News* took me to its editorial-page woodshed a second time, I was suddenly confronted with a company demand: I must agree never to comment publicly without formally clearing each word in advance and in writing. The issue was not *what* I said, but whether I could say anything at all.\(^3\)

The challenges of microfit and macrofit came together and interacted in this case on the subject of free speech. The question was the value fit between Donald Singleton and the corporation as well as the value fit between the corporation and its social environment, both locally and nationally. Thus, we can see how in the absence of strong corporate leadership, pressures from society flowed through the corporation to affect the individual.

Some practitioners and students have argued that in Donald Singleton's situation the corporation "caved in" to one set of pressures in the process of rigidly imposing another set on the individual. Others have argued that Singleton either underestimated the need for congruence or overestimated his power to achieve it. The tragedy, if that is an appropriate description, came from the lack of "space" for moral initiative that either the corporation or the individual were allowed. I am convinced that this drama continues to be played out all too frequently in today's business world. Experienced and insightful executives often lose or are denied the freedom to share their experience and insight as they rise to positions of responsibility in corporate life.\(^3\)

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33. The best *explanation* of this loss of influence, that higher rank
A second case emphasizes how the microfit challenge relates to entire corporate divisions, not simply to the values of individual executives. At the same time, it shows how the macrofit challenge can come from sources beyond the market and the law. This illustration may be of special interest in the context of recent debates over friendly and unfriendly corporate takeovers.

A significant television programming controversy erupted nationally during 1980. In mid-January of 1981, top management at Consolidated Foods Corporation (CFC) in Chicago was concerned. Some consumers were complaining and threatening boycotts because of the content of the television and print advertisements of the company's recently acquired Hanes division; others objected to its sponsorship of television programs thought to portray excessive sex or violence. Organized groups had adopted progressively more sophisticated tactics; simple letter-writing campaigns had evolved into elaborate television monitoring and publicity efforts. In addition, the groups had shifted their targets from the networks to advertisers and their parent companies.

John Bryan, chief executive officer of CFC, knew that the protesting groups represented only a minority of consumers. But he knew that other important groups that had challenged establishment values, including civil rights groups in the sixties, had also been minorities. Such groups could work through the political process for change, or they could bring their concerns to the public through protests and boycotts. In this case, no one wanted government censorship of networks and advertisers. That left the networks and the advertisers as targets. Bryan knew that corporations were being challenged to re-examine their largely quantitative, market-following media policies in favor of more qualitative, value-sensitive policies.

Complicating Bryan's situation was Hanes's status as a recent acquisition. Its corporate culture was less conservative than that of its new parent company. Hanes had cultivated a glamorous Madison Avenue image that was less cautious than

leads to closer identification with the corporation as a whole, seems to me unsatisfactory as a justification for the corporate leader's loss of influence.

34. Matthews & Goodpaster, supra note 4, at 250; see also Goodpaster, Should Sponsors Screen for Moral Values?, Hastings Center Report, Dec. 1983, at 17. The company has since changed its name after reorganization.
the other divisions of CFC. From the viewpoint of competitive strategy, some aspects of this cultural difference were quite positive. But now the ethical aspects seemed to be the focus of attention.

In this situation, CFC had to face questions about whether and to what degree it was to be guided by shared values. Could a diversified corporation effectively maintain different, perhaps conflicting internal values among its components? If so, could John Bryan avoid both the Scylla of standing for nothing and the Charybdis of moral dogmatism toward his business units? If not, what were the implications for corporate ethics as more and more large organizations grew by merger and acquisition?

John Bryan addressed the problem by quietly directing the tightening up of advertising and programming guidelines, over the objections of divisional marketing personnel, while "lying low" to avoid media attention and boycott "hit lists." Most business leaders in a similar situation have done the same.

One major advertiser, however, adopted a different posture. Owen Butler, Chairman of Procter & Gamble, made the television issue the central theme in a widely quoted speech to the Academy of Television Arts and Sciences. After cautiously acknowledging the validity of the consumer protests, Butler asserted:

For sound commercial reasons, we are not going to let our advertising messages appear in an environment which we think many of our potential customers will find distasteful. Beyond that, we are going to be guided by our conscience on the kind of material we sponsor. A corporation is not without personality and character and conscience. A corporation like ours has a character which is the sum of all the tens of thousands of people who have made up that corporation for more than 140 years, and our definition of the kind of media which we would support with our advertising has always involved some moral considerations. . . . It is completely within our character not only to screen out problem programs, but also to actively seek programs of exceptional artistic quality, which are truly inspirational and which challenge the very best in human nature.35

35. Speech by Owen B. Butler, Television Can Show and Tell, But Can It Listen?, before the Academy of Television Arts and Sciences (June 15, 1981), reprinted in MATTHEWS & GOODPASTER, supra note 4, at 272.
Many applauded Butler’s public stand. Some, pointing to certain afternoon soap operas sponsored by P&G, were more cynical. Critics observed, however, that the quality of network programming improved during the following year.

PART IV. THE CHALLENGE TO LEADERSHIP

This discussion of mindset stability raises two basic empirical questions for future research. First, how do the moral values of managers and business units at various levels in the corporate hierarchy influence the moral values of the company as a whole (and conversely)? Second, how do the moral values of corporations of various sizes in various sectors influence the moral values of the wider society (and conversely)?

The discussion also raises important ethical questions for business leaders. Leaders who would sustain shared values face an ethical paradox, one that is both philosophical and practical. If mindset stability is truly an imperative, then it would seem that values should be encouraged in a way that commands maximum adherence among both management (internally) and society (externally). Yet such a demand can seem dogmatic and contrary to the freedom-respecting spirit of the moral point of view. According to what can be called the paradox of paternalism, it is essential to develop and sustain a group conscience, yet nonetheless coercive to seek to dictate the value orientation of others, whether inside or outside the corporation. Resolving this paradox in practice is one of the chief marks of responsible leadership.

The tension created by the paradox of paternalism springs from two sources: first, the nature of the mindset in question (content); and second, the way in which congruence or fit is pursued (process).

The content issue (Types 1, 2a, 2b or 3) will influence the direction in which the company encourages both internal and external fit. A company with a Type 1 mindset, Amvac for example, would presumably not encourage its managers (or the surrounding community) to adopt a similar orientation (self-interest alone), since it would be in the company’s interest for these parties to be relatively selfless. Similarly, a company like Viking Air Compressor with a Type 2a or 2b mindset would want its employees (and outside institutions) to be guided by loyalty to its competitive advantage within the con-

36. For further discussion of “the moral point of view” see chapter six of W.K. Frankena, ETHICS (1973).
straints of the law and the regulatory process. Only in the case of a *Type 3* corporate orientation does it seem realistic to expect congruence among mindset levels (person, organization, community).

*Type 3* thinking escapes the charge of fostering a double standard for employees and the community in a way that the other mindset types do not. But there is more to the paradox than the issue of content. Process is just as important. Even within a *Type 3* organization, if corporate advocacy is highly specific and inflexible, the danger of what some call "moral imperialism" is real. Both executives and the community can feel threatened by too much moral pressure.

An instance of this intense moral pressure can be seen in the case of the Massachusetts High Technology Council. During 1980, the Council, an association of over 100 chief executives of computer firms in Boston's Route 128 region, sought to win personal tax reform for Massachusetts residents. The Council argued that the disproportionately high property tax was making it difficult to attract and retain high tech employees. It proposed a "social contract" that promised to add 60,000 new jobs to the state's economy if the tax burden on individuals was reduced to the average rate of 17 competing industrial states. After resistance from the state legislature, the Council joined forces with a citizen initiative to seek a new tax law.

During the heated debate preceding passage of the new law, and during the subsequent implementation period, the Council was sharply criticized for imposing its values on the public, forcing local communities to cut back on education, law enforcement, and social services. The chief executive of one member company resigned from the Council with the following words:

Because the Massachusetts High Technology Council has helped to create this policy disaster, we have decided to resign in protest of the Council's ill-considered, socially divisive, and economically destructive actions.

37. For an example of research along these lines, see the work of psychoanalyst Michael Maccoby who argues that certain character traits are selected against by the "psychostructure" of many corporations, affecting the character of the organizations themselves. Maccoby, *The Gamesman: The New Corporate Leaders* (1976).
38. *Matthews & Goodpaster*, *supra* note 4, at 182.
The Chairman of the Council, chief executive of another member company, defended the public policy initiative in ethical terms:

You may or may not agree that high tech was on the side of the angels in this fight, but we were certainly on the side of the people. And that's exactly where we should stay. For perhaps the most significant aspect of this whole exciting story is the alliance between the majority of the people in this state and the industry we represent.40

It was clear that the Council saw itself as upholding the basic values of rationality and respect as it sought a high degree of congruence between the values of its employees, its member organizations, and the wider community. It was also clear, however, that its pursuit of this congruence through the exercise of economic power in the public policy arena was viewed with alarm. The paradox of paternalism was very much at issue.

In Search of Pluralism

In a speech at the Harvard Business School in November 1984, James F. Beré, Chairman and Chief Executive Officer of Borg-Warner, spoke of the importance of both flexibility and patience in communicating shared values to those who would eventually carry them on. Referring to his company's "Beliefs" statement41 he said:

The very last thing we want at Borg-Warner is to have our people marching in lock-step. Managers at all levels must make their own decisions in dealing with specific needs. The Beliefs do not provide rules. They do provide standards against which individuals can test the actions that seem necessary. They raise the ethical questions that should be asked as part of any decision making. And they will invariably be interpreted differently at different locations, depending on the background, the traditions, and the mindset of each individual. It may take a decade before a true commonality of attitude develops.42

40. MATTHEWS & GOODPASTER supra note 4, at 199.
41. See text, supra note 13.
42. Address by James F. Beré, Chairman and Chief Executive Officer, Borg-Warner Corporation, at the Harvard Business School (Nov. 29, 1984) (on file with the author).
Beré's remarks indicate an understanding of value stabilization not only as an exercise of influence by the corporation on its future leaders, but also as a process that can move in the reverse direction, that is, by individual values influencing the larger organization. For in the development of what Beré called "a true commonality of attitude" (what we have called microfit), both parties should be capable of accommodation. Only the medium range approach, it seems, allows for this accommodation. The low range fails at influence in either direction, while the high range involves the "lock-step" that Beré rejects.

At the conclusion of his speech, Beré revealed an awareness of the corresponding macrofit challenge:

I find a changing attitude outside the company equally encouraging. When the beliefs were first announced, they were greeted with snickers by a few of my peers. That has stopped. Now I am frequently asked by other CEOs how we developed and introduced the beliefs. People may be waiting to see how the fruit ripens, but they are no longer dismissing the idea out of hand. I think the climate is changing throughout industry.48

Perhaps we need to be reminded that part of the ethical message is the ethical medium. How and with what kind of forbearance should a company try to influence future leaders and the wider community in the direction of a given Type 3 mindset? Once we ask this question, we begin to see that Type 3 thinking and the medium range of mindset congruence go together in a natural way. The company that values respect for others will be more likely to respect the values of others.

The medium range is the only range within which Type 3 values can effectively be sustained—in contrast not only with Type 1 and Type 2 values, but also with high and low range efforts to advocate Type 3. This is due to the way in which respect figures so centrally in the orientation of the Type 3 leader. Respect fosters a self-moderating moral pluralism. The high range is too dogmatic to allow for such respect, while the low range is too relativistic to be stable. If the value orientation of a corporation governs the strategy adopted for sustaining it (a reasonable assumption in the absence of hypocrisy), then medium-range Type 3 thinking will help the leader to effectively manage, if not resolve, the paradox of paternalism.

48. Id.
Conclusion

We need to understand the relationships among the three levels of ethical decision making—person, organization and wider community—if we are to clarify the leader’s moral responsibility. This responsibility requires not only orienting and institutionalizing corporate conscience. It also requires sustaining it by attending to the fit between the company’s values, the values of the individuals that will (or will not) carry them on, and the values of the community that will (or will not) be supportive. When respect is basic to corporate values, the degree of fit that the leader seeks to develop and sustain will tend to avoid the paradox of paternalism by striking an appropriate balance between relativism and dogmatism.