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*Business Leaders: Thought and Action*

**An Ethical "Reality Check"**

by Robert D. Kennedy

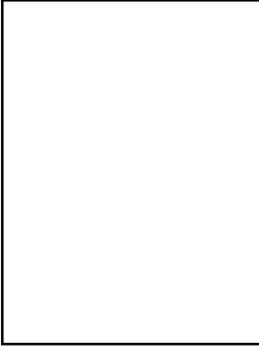
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# An Ethical "Reality Check"

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The subject of ethics in business is now front page news. It goes way beyond white collar crime. The headlines now range from layoffs to executive pay and places in between. With it comes plenty of behavioral advice from lawyers, "preachers and teachers," and moralists of the media.

Yet one thing has never changed. To conduct business successfully, you need ability – intelligence, training, and skills. But at least as important, you need reputation and it turns out that reputation is really integrity – it's ethics.

Let's examine some modern examples of this conclusion and lay it against what ancient philosophers advised to see if it rings true.

I learned a great deal about reputation and ethics as I observed close up the intuitive response of my predecessor, Warren Anderson, to the awful tragedy and consequences of a gas emission in Bhopal, India, as he tried to deal with the effect of this on 100,000 employees and, indeed, the chemical industry worldwide. I'll come back to that, but first, let's hear the views from history.

The ancient Chinese philosopher and teacher Mencius (4<sup>th</sup> century B.C.) was a follower of Confucius. He wrote and taught that humans were innately good. The innocence of the child, he said, could be shaped and nurtured, and energized, motivated to a very high call, indeed.

HsunTzu, who followed Mencius by only a few years, believed quite the opposite: humans' innately evil bent could only be curbed by tight rule by society and societal safeguards.

If you travel in China today and look in bookstores, particularly

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the English-language stores in and near the modern hotels, you will see large numbers of modern translations of Hsun Tzu. Apparently this is how the Chinese want Westerners to view Chinese philosophical roots today. You have probably sometime come to your own intuitive position on Mencius or Hsun Tzu – one is right, the other is, or neither one got it completely straight.

I didn't personally come across Mencius, Hsun Tzu or any philosophically challenging pieces in my engineering studies; my introduction didn't come until 20 some years into my business career, when I attended several seminars on expediency and morality.

I had gotten, maybe 15 years earlier, some very good "inside business" lectures, training, and video reenactments of real case histories on Robinson-Patman competition laws, cartels, price-fixing – consorting with the competition. That was the biggest ethical concern most corporations had in the '50s and '60s – the biggest exposure or risk. Today, alas, life is more complex. Though Milton Friedman says, "The only legitimate job of business is to make a profit for the shareholder," Milton doesn't run any businesses.

## **"Real Time" Ethical Issues**

You may not think it important how you come down on Mencius or Hsun Tzu – although it's comforting to know that the subject has been debated for centuries. It is very important to know how you come down on real time issues like: safety in the workplace, and would you have the courage to stop an operation or a procedure that you believed could hurt somebody, or could produce an emission that would go over the fence to your neighbors' yards?

Or if you were witness to, or an inadvertent party to a racial, ethnic, or gender slur in the workplace, how would you deal with it?

If you knew that a batch from your latest production run was slightly off-spec but probably wouldn't interfere with certain customers' requirements, would you, "as a practical matter," OK the shipment to meet a promise date; or blend it in with good-on-spec product to dilute the off-spec variations; tell the customer beforehand; look to see what was done in previous circumstances; ship it and hope for the best; stop production, hold all shipments, find the problem; do whatever your boss told you to do; or all of the above?

Suppose you were a member of a multifunctional, multiskilled task force addressing the issue of how to simplify the customer order-entry procedure, reduce cycle time, cut cost, improve information flow, reduce errors, be able to tell the customer instantly

where his order was on the system, and your team was enormously successful. Let's say that among the specialists on your task force from accounting, MIS, production, scheduling, quality, sales and marketing, you were the marketing person. Given that you have a certain facility with words and bringing people together, the team sort of came to look to you for leadership.

At the end, your team wins a company award for distinguished performance, but nobody singles you out for recognition. How do you feel? How do you feel about teams in the future?

Teamwork calls into question all kinds of ethical dilemmas. As far as I know, very few *teams* have been elected vice president or CEO. Individuals get the top jobs. So how do you participate effectively, genuinely as a team member? Say, "Aw shucks, give the other guys the credit," when you know it was your brilliance that really won the day?

You are the manager of transportation for a major international oil company – extraordinarily well versed on operations research, linear programming; queue theory, optimization of scheduling of multiple vessels into and out of multiple

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*Teamwork calls into question all kinds of ethical dilemmas.*

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ports with complex cargoes and so forth. Only a third of your fleet has double-bottom hulls. One of your single bottoms runs aground off the South Carolina shore, dumping tons of crude on coastal beaches. What do you do?

Or, same company, two years later, your boss says, we're no longer going to run our own bottoms, too much exposure. From now on your job is to charter all of our transportation from third parties, make sure they have strong financial resources, plenty of insurance, and are willing to accept, in writing, full liability for any spills. What do you do? Has your job changed?

## **Back to Warren Anderson**

On December 3, 1984, a highly toxic gas emission erupted from a storage tank in Bhopal, India. In the immediate aftermath, over 3,000 people died. Within a day of receiving the news, the chairman and CEO of Union Carbide left for India, unaccompanied, and

over the objections of his family, lawyers, security and public relations people. He wanted to find out first-hand what could be done to help, provide treatment and relief, and establish communications with Indian authorities. Also, because the Indian chairman and managing director were old business associates and friends, he wasn't going to leave them alone to face the public outcry.

By the time he arrived in Bhopal, two days after the event, the outrage and political backlash were so great against the "multinational exploiters of the third world," that government officials refused to see him. He was held under house arrest for a few days and then put on a plane out of the country.

When Warren Anderson got back to the United States, he stood up at a press conference before a hundred reporters and television cameras. In response to a question – without rehearsal, no script, no advice from lawyers or PR folks – he said, "We accept full moral responsibility for what happened in India." Would you have said that? Would any one say it today? Yet, in a heartbeat, it set the tone for the company's actions and policies to this day.

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*"We accept full moral responsibility for what happened in India." Would you have said that?*

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Six months later, I was given responsibility for all of our chemical

and polymers businesses worldwide. I was no different than most of our people. I was sickened and ashamed of the news coverage of Bhopal – night after night, pictures on the evening news of the plant gate in India with our logo out front, constant press reports from India on the conditions, the vilification by the activists, the claims in courts.

And I went to all of our plants here and around the world and asked myself what was the connection between these good people in Texas, Louisiana, West Virginia, Canada and Brazil, and the good people in India?

We had prided ourselves on our safety performance, our engineering, our training, our decency. Our folks in West Virginia had invented and started the world petrochemical industry in the 1920s. We had third-generation people working for us. One family had seven brothers working for us and over 240 years of experience. They were proud to be Carbiders. They couldn't identify with Bhopal, but it was their company logo on the gate.

What would you say to those people in the wake of Bhopal?

The only thing I could think of to say was, “Look, we had a reputation before Bhopal of being decent, honest people. We were respected by our peers in the industry. You are the same good people today you were before. The only way we will regain our reputation is the way we earned it in the first place – one day, one week, one year at a time. We can’t buy it, we can’t change our name and run from it. Let’s go back to work.”

## The Importance of a Moral Compass

Some lunatic lifts a few packages of Tylenol from a warehouse inventory, opens the package, removes a few capsules from each, takes them apart, laces them with a poison, carefully reassembles the whole business, closes up the packages. They go into the distribution network. Several people are stricken and a few die in random locations. A national scare fanned by the media occurs almost overnight. Jim Burke, CEO of Johnson & Johnson, goes on television and announces a recall of every single package of Tylenol in the country at a cost of hundreds of millions of dollars to his company. Dramatic? Overreaction? Just the right thing? Other choices possible?

You attend a technical meeting of the Society of the Automotive Engineers in Detroit, a committee on lighting standards for dashboards and instrument panels. It is well attended by senior engineers and marketing types who have a big stake in how the standards come out. At a cocktail reception following the meeting you talk casually with a number of folks who work for your competitors. One of them whose opinions and conduct you particularly admired during the technical meeting takes you aside and thanks you for your support of his position. He says, “Some folks think they’re designing instruments just to last 50,000 miles or the warranty on the car. You can’t tell. We think you gotta go for a lifetime product. Costs more up front, but in the end, it’s better value.” You agree. Then he says, “If you and Charlie will support me on this, I think we can freeze the junk dealers out. They’re not good for the industry.” You agree with him philosophically. He’s a senior respected industry engineer. You agree verbally and act on it. You have probably just broken the law. You have conspired to set standards with the implication that you will squeeze lower cost guys out. Borderline? Maybe. Dangerous? Definitely.

We get lots of advice in business on the law and regulations affecting our choices. We are told about the letter and intent of the law *and* about the “custom” — that is, how things really get done

around here.

But the most important factor is the moral compass somewhere inside you. The law and the regulations are external. They are on the surface.

I know people in business whose morality is precisely what the law says. The law says we will not harass our people. We shall practice diversity, get graded on upward mobility. OK, I shall follow the rules. On dumping of toxic wastes or effluent from our plant, the permits allow us to do *this* much and no more. We will do up to this and no more. The policy says I am allowed this on my expense account as a per diem. I shall spend up to this and not a penny more. I shall report not a penny less, either.

I have known many people like this in business. I believe their moral compass is given to them only in the company manual.

And finally, one of today's toughest business dilemmas, in terms of morality, is the restructure. For whatever reason: changes in the marketplace, in global competitiveness, past management errors, technological obsolescence, a company finds itself noncompetitive and not producing for its shareholders.

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Scarcely a company or an industry in the United States has not faced this problem in the past 15 years. IBM down 300,000 jobs, AT&T, 100,000, Navistar down from 110,000 to 10,000. The defense industry has lost 1,000,000 jobs in the past decade, as many as are employed in the *entire* chemical industry.

Easy to say that in the macroeconomic view, America has created in the same time frame over 27,000,000 new jobs and that unemployment in the latest numbers is at a record low of 5.1 percent. But what of those laid off, given early retirement? What do we say of those wrenching personal dislocations?

Not easy. Particularly when we know that much of the problem — not always, but often — was caused by previous and poor management judgment. And in our corporate mode, not many of those who made the cumulative bad decisions are still around to share in the responsibility or the consequences.

Corporate managers, justifying restructure, almost without ex-

ception rely on the rationale of “the greater good for the greater number.” That, and the fact that, almost always, staff reductions are accompanied by some safety net of severance pay.

There is no other rationale. Survival of the enterprise is at stake, for whatever reason or cause. It is not just the shareholder. It is the corpus of the enterprise, the assets, the main body of the people, the products and services that have earned a place in the market and deserve a chance at preservation and renewal. It is a wartime decision.

In 1988, Helmut Schmidt, addressing a meeting of the Business Council at the Homestead, said there were three things he was most concerned about for mankind in the next millennium: world overpopulation; the uncontrolled spread of nuclear arms; and *the rapid growth of global business without commensurate growth in global business regulation.*

I was struck by his prescience. Imagine putting business morality and governance up there in a league with overpopulation and nuclear arms. He must be a Hsun Tzu. I am not. I think most business leaders want to be remembered for decency in the pursuit of investor returns, but the rude gaze of public scrutiny is not a bad thing. ↩

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