

BASED ON THE ARTHUR ANDERSEN & CO, SC  
BUSINESS ETHICS PROGRAM

MAKING  
... *the* ...  
RIGHT  
DECISION

*Ethics for Managers*

WILLIAM D. HALL

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# **Making the Right Decision**

## **Ethics for Managers**

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**WILLIAM D. HALL**

*Retired Partner*

*Arthur Andersen & Co, SC*

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# **Making the Right Decision**

Ethics for Managers

## PREFACE

Lawrence A. Weinbach  
*Managing Partner—Chief Executive*  
*Arthur Andersen & Co, SC*

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Over the past several years, much attention has been focused on what some have called an “ethics crisis”—a breakdown in behavior deemed to accord with accepted ethical norms. Some people perceive the malaise to be societal in nature, impacting business, governmental, and personal behavior alike.

Others, however, speculate that human frailties are probably no worse than before and that growing instances of publicized wrongdoing are a factor of intensified media scrutiny—plus the media’s willingness, bordering on compulsion, to expose lapses of conduct once considered off-limits to public view.

And still others maintain the “true issue” is really not so much the deliberately unethical behavior that grabs headlines. Rather, it is the increasing complexity of business and society and the demand for greater accountability to different publics with different interests that makes it more and more difficult to differentiate “ethical” from “unethical” behavior.

All of this comes at a time when there is near-universal recognition that ethical behavior is a basic in the exercise of credibility and trust in all manner of business activity.

As an organization committed to the free flow of commerce, the partners of the Arthur Andersen Worldwide Organization

underwrote in 1987 a \$5-million, five-year Business Ethics Program designed to integrate ethics more fully into the curricula of the nation's business schools. Its objective was to encourage and facilitate the understanding and teaching of business ethics to future business leaders. An Advisory Council on Business Ethics—consisting of scholars, teachers, and business executives—designed, conducted, and monitored the program.

Since the start of our effort, some 1,120 faculty members from almost 300 colleges and universities have participated in conferences addressing the subject of business ethics at the Arthur Andersen & Co., SC Center for Professional Education in St. Charles, Illinois. Our program design was basically to inform the teachers about inculcating principles of ethical business conduct among their students.

An independent research firm, retained in Fall 1990, has evaluated the program. Telephone interviews with randomly selected participants have affirmed the need for, as well as the efficacy of, the initiative. Ninety-one percent of the teacher respondents reported they had changed their courses of study after attending the Business Ethics Program; 86 percent had greater confidence in teaching business ethics. Using every measure we can identify, the program has been successful—even beyond our original high expectations.

Although I am gratified about the long-term impact the program will have on students after they graduate and continue with their careers in business, my partners and I looked for some vehicle that would expand on the immediate direct benefit that has influenced students of business during the five years of the program. Our goal was to capture the lessons learned about business ethics for transmission not only to future generations of business leaders but also to those now in business who had minimal or no exposure to teachings on business ethics.

We decided that a book, based in large part on what had been learned from the program, would, at the least, be a first step in perpetuating ethical behavior in business as a topic of consideration and instruction.

Bill Hall, a retired partner and an involved member of our Advisory Council on Business Ethics from its inception, was our choice as author. Prior to his retirement in 1984, Bill had served as chairman of our Committee on Professional Standards, whose responsibilities included establishing and monitoring professional ethics in our worldwide practice. He has also authored numerous papers and articles during his long career.

Bill's approach to his assignment has more than confirmed the wisdom of our selection. Initially, he contemplated a somewhat straightforward treatment of business ethics written from the viewpoint of recognized business ethicists that would also draw from the vast storehouse of data developed in our conferences over the past five years.

But as Bill pursued his task, he came to believe that the world was not crying out for another conventional textbook on business ethics. In fact, many such texts, authored by students of business behavior and philosophers alike, already exist.

And although the same is true also of conventional casebooks, Bill felt strongly that "real life experiences"—the stuff of which case histories are made—were most compelling in creating and retaining interest and in communicating experiences. He ruminated that some of the most effective lessons one can find on ethics are related in fiction that explores the human condition, with all the dilemmas, the shining moments, and, yes, the lapses that mark the trail of a person's life journey. He recalled the solution to a nagging problem that came to him as he read George Eliot's *Middlemarch*, and the lessons he clearly remembers from William Dean Howells's *The Rise of Silas Lapham*, sometimes described as the first novel to deal with modern business.

The result is this book, written as a real-life fictionalized extended case study—or perhaps more accurately, a series of related case studies—centered on a medium-sized manufacturing company in a small city. Most of the cases are developed conversationally, through dialogue, artfully facilitating the presentation of multiple (and most often conflicting) points of view. The debates

are sharp, the atmosphere is real, and a sense of urgency is always present.

Indeed, as I read the manuscript, I came to feel close to the company and its people and to empathize with their problems. Time and time again, I felt compelled to make the decision myself.

That says a lot about Bill Hall, about his book, and, I hope, about the experience you are in for when you read *Making the Right Decision: Ethics for Managers*.



## ACKNOWLEDGMENTS

*Making the Right Decision: Ethics for Managers* evolved from the five-year Business Ethics Program of Arthur Andersen & Co, SC. An Advisory Council, composed of leading professionals and others in the field of business ethics, helped design, conduct, and monitor this program. I was fortunate indeed to work closely with all of them, first as a consultant to the program and then as a Council member. These informed, dedicated individuals increased my awareness of the complexities inherent in ethical dilemmas and introduced me to the skills one can use in applying moral reasoning to their resolution.

Three members in particular provided essential help as the book began to take form, as I wrestled with what to include and how to present it, and as I worked on the finishing touches. At the outset, Dr. Robert A. Cooke counseled me on format, encouraging me in the use of the case study approach; he also pointed me toward source material and reviewed the earlier chapters. Later, Dr. Peter Madsen gave invaluable guidance as I tried to resolve the more complex issues that surfaced when I was trying to tie up loose ends; then he served as a friendly critic in reviewing the final manuscript. And John E. Swanson's insight, as an executive who has devoted much of his career to implementing a

business ethics program in his own company, offered practical suggestions and concrete examples that helped bring the ethical concepts to life.

The first Council chair and a man widely recognized as *the* pioneer in the field of business ethics, Dr. Clarence C. Walton, provided inspiration and guidance through his leadership in meetings and in his writings. Other Council members included Clarence's successor as chair, Dr. Patricia H. Werhane, and Don G. Baker, Dr. Norman E. Bowie, Dr. Edwin M. Epstein, Dr. John E. Fleming, Robert L. May, Howard L. Siers, and Dr. Manuel Velasquez. Each of them, in one way or another, offered insights that found their way into the book.

G. Robert Baechle, a fellow retired Arthur Andersen partner who served as director of the program, provided able and willing counsel and backup as I labored to bring the book into being. Bob suffered through the reading of more chapter drafts than I—and, I am sure, he—like to recall. He did not even let a heart attack, one from which he is fortunately recovering, stand in the way of helping—clearly support above and beyond anything that could be expected. And his able assistant, Barbara Bunning, was always there, ready to be of assistance or to find someone who would fill the bill.

Robert Mednick, my successor at Arthur Andersen, had recommended me as the author when the notion of this book first arose and had gently “leaned on” me to accept the challenge. He offered his valuable support throughout, including careful reading of many drafts. Our long and warm friendship not only survived the stress of my authorship and my demands on Bob's daunting schedule, it prospered.

Recognizing that most of those whose counsel I had sought during the writing were mature professionals and executives with considerable experience, I wanted to see how the effort would “play” with persons just beginning their business or professional careers. My youngest sons, Alex, a 1986 MBA involved in real estate, and Andrew, then just one year out of law school, agreed to read drafts of some key chapters. Their comments generally

encouraged me in the direction I was taking, but their criticism (which has always been frank, sometimes uncomfortably so) caused me to sharpen the focus of some sections and even to add some material. Perhaps the money spent on their education was not entirely wasted!

And finally, I wish to acknowledge the contributions of my publisher, particularly Jeffrey Brown and Erika Heilman. After reading the manuscript, they offered only a few, but very perceptive, suggestions. Although these suggestions were seemingly simple and easy to implement, the result gave the book the focus it needed.

As is customary in acknowledgments such as this, I appreciate all the help offered me—help without which the writing of this book would not have been possible—but I alone am responsible for the way in which this help has been interpreted and used.

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## INTRODUCTION

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# What This Book Is About

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### **Decision Making: The Art of Management**

The ability to make sound, timely decisions is an art, one could say *the* art, of management. Identifying a problem where action is required. Obtaining and evaluating pertinent information from diverse, sometimes conflicting sources. Weighing alternatives and assessing priorities. Reacting to late-breaking developments. And *then making the decision*. These are all *important components of the decisions*, from the more trivial to the most complex, that individuals in business make daily.

This book deals with decision making, and how ethics plays a vital role in these decisions. The successful manager is one who can make decisions quickly and usually be right, all the while dealing with many, varied issues that demand immediate attention. And the responsible manager is one who reflects ethics in this complex decision making. Michael Rion, who has been actively involved in business ethics both as a manager and as a consultant, captured the essence of this in a few words:

Managers are . . . faced with the sheer rapidity of the decision process and the necessity to act. Individual managers typically handle this complexity with quick decisions. There are simply

## 2 / INTRODUCTION: WHAT THIS BOOK IS ABOUT

too many simultaneous issues and demands on their time to allow for deliberative consideration in every case. Indeed, a critical skill for managers is knowing when to stop the process for careful deliberation; it cannot be stopped every time. The manager who slows down the process too often will in many cases miss the opportunity to decide and will ultimately fail to carry out the managerial task.<sup>1</sup>

Earlier, Rion had written:

From education and experience, a person brings a repertoire of skills, models, and perspectives into rigorous interaction with unique problems and thereby discovers new directions. [This] model fits well the lived reality of managers who cope daily with complexity and ambiguity. Their ethical decisions come not from application of moral absolutes, but from the interplay of values, concepts, experience, and immediate realities.<sup>2</sup>

In this book, these characteristics of real-life decision making come to life through such true-to-life dilemmas as:

- Pressure on a board of directors to make a fast decision on a relocation that affects the viability of an important product line, millions of dollars of the shareholders' investment, the jobs of hundreds of longtime employees, and the well-being of a community.
- The mental tug-of-war of a purchasing agent, having to reduce orders of a certain item by 25 percent and trying to decide how to allocate the cut between a local, longtime supplier that may not be able to survive without the business and a large company that has offered a price incentive if it can retain or increase its level of orders.
- The soul-searching of a promising young manager confronted with a nagging suspicion that the study he had made,

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<sup>1</sup>Michael Rion, *The Responsible Manager: Practical Strategies for Ethical Decision Making* (San Francisco: Harper & Row, Publishers, 1990), 37.

<sup>2</sup>*Ibid.*, 36, discussing the views of Donald Schon, *The Reflective Practitioner: How Professionals Think in Action* (New York: Basic Books, 1983).

one on which the company has based a critical decision, may be seriously flawed.

Each of these decisions has ethical dimensions. But managers and others, confronted with dilemmas like these, do not ordinarily stop and consciously, deliberately, apply a conceptual framework of ethics to their decision making—even if they are familiar with such a framework. Possibly they might do so on infrequent, very important decisions like the proposed relocation. Normally, though, especially in individual situations, they cannot afford that “luxury.”

This does not suggest that a sound basis in moral reasoning is irrelevant. Indeed, the very need to assimilate relevant factors and reach a decision quickly emphasizes the importance of a grounding in basic principles—such a grounding that their application becomes almost reflexive. In dealing with complexity and ambiguity and a wide range of problems simultaneously, a person needs far more sophisticated guidance than lessons learned as a child, at home, at school, and in church.

### **Ethical Issues Can Be Complex**

Answers to ethical questions are clear, at least we normally think they are, regarding flagrant violations of the law. The transgressions of an Ivan Boesky, perhaps. Or a Michael Milken. But common sense and experience tell us felonies like theirs were not committed in isolation. We know about those associates, closely involved, who were granted immunity to testify against the leaders. Beyond those, there were bound to be many others who, perhaps, broke no law but knew or suspected something was amiss—who said they were only following orders . . . who looked the other way . . . who said, “That’s how business is.”

Ethical concerns, however, are not limited to situations in which people are involved, directly or indirectly, in illegal acts. *Ethics is broadly concerned with how persons or organizations act, or should act, in relations with others.* Although takeovers that enrich

a few persons while jeopardizing the savings or livelihoods of thousands may not be illegal, they can pose as many ethical questions as illegal insider trading. And so can some of the golden parachutes crafted for a few favored executives just before a threatened takeover.

Even some necessary actions, such as the closing of a plant that, despite the best efforts of the owners and management, has continued to drain resources desperately needed elsewhere, have ethical implications. Although loss and suffering for innocent people may be unavoidable, ethics calls for reaching and implementing decisions in such way as to minimize harm. And that involves identifying and dealing with competing claims of those affected—attempting to balance myriad rights and obligations.

The well-known ethicist Manuel Velasquez points out that ethical issues in business involve three levels—that of *society*, that of the *organization*, and that of the *individual* within the organization.<sup>3</sup> At the societal level, business is part of a social system that includes various economic, legal, and political institutions; this macro level may be concerned with broad questions of the ethical rightness or wrongness of the system itself, for example, the ethical basis of capitalism or other forms of political and economic structure. Although this book addresses all three levels, it focuses at the societal level only on how the organization impacts the society of which it is a part.

### **A Company Faces a Tough Plant Relocation Decision**

A reader can learn from messages embodied in concrete examples, situations to which he or she can readily relate, far more easily than from abstract discussion. The chapters that follow, therefore, take the form of a story, a case study—or, more precisely, a series of interrelated case studies involving a single company. As the situation develops, the book uses the dilemmas posed to draw out

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<sup>3</sup>The discussion of the three levels in this introduction is based on a paper that Dr. Robert A. Cooke, Director of The Institute for Business Ethics at DePaul University, prepared for the author.



ethical issues and then to point toward ways in which they can be resolved. It relies heavily on dialogue, frequently argumentative, sometimes heated, occasionally humorous.

Our story opens with first the chair, George Hauser, then the board of directors, of Hauser-Moore Manufacturing Company coping with a sudden, unexpected proposal for the relocation of a major product line—a move that would cost hundreds of long-time employees their jobs and that would traumatically affect other local businesses and the community at large. As the directors of this medium-sized company, long a major part of the community, debate the proposal, they are torn by economic arguments, ethical questions, and personal concerns. It becomes apparent that they have no common agreement on what ethical issues are present—or, in the case of several, whether ethics is even involved. But they must make a decision—and reluctantly they do.

Here, we are at the organization, or company, level referred to earlier. At center stage are the ethical aspects of company decisions that affect others. For example, when the management of a company considers relocating a plant, what may appear to be a basic economic decision has consequences for other individuals or groups that usually have no voice in the decisions. A concern at this level is corporate structure and corporate culture. Does the structure or culture help or hinder ethical decisions? If roadblocks to ethical behavior exist within the organization, what can be done to remedy the situation?

A month after their difficult decision, Hauser and Michael Lerner, another director, discuss what took place:

“As I see it,” Hauser said in response to a comment by Lerner, “we didn’t have an ethics problem—except possibly for the involvement of Dick’s brother in the plant purchase. We just had one hell of a big management and PR problem.”

“I disagree, George,” Lerner interjected, “and that, I believe, is one of our problems in addressing ethics. Too many people think there’s no ethics issue unless someone is caught with his hand in the till. Ethics is the way in which people behave toward one another; as a result, it is intertwined with