Stanford University Press
Stanford, California

Printed in the United States of America on acid-free, archival-quality paper

Library of Congress Cataloging-in-Publication Data

Hoyk, Robert, 1952-
The ethical executive : becoming aware of the root causes of unethical behavior : 45 psychological traps that every one of us falls prey to / Robert Hoyk and Paul Hersey.
p. cm.
Includes bibliographical references and index.
ISBN 978-0-8047-5965-6 (cloth : alk. paper)
1. Business ethics. 2. Psychology, Industrial. I. Hersey, Paul. II. Title.
HF5387.H69 2008
174'.4--dc22 2008027907

Designed by Bruce Lundquist
Typeset at Stanford University Press in 10.5/15 Sabon

TRAPPED!

IN THE WINTER OF 2001, Enron, the seventh largest company in the Fortune 500, went bankrupt. It was the second largest bankruptcy in the history of the United States. The Justice Department began an investigation after Enron admitted to fraudulent accounting that had overstated its income by $586 million. With the meltdown of the company, the loss to investors exceeded $60 billion.[1]

In the spring of 2002, Adelphia Communications, one of the largest cable companies in America, filed bankruptcy after restating its profits. The founder of the company, John Rigas, and his three sons had already been indicted. It was alleged that the Rigas family had used assets of their company as collateral to acquire personal loans of $3.1 billion.[2] Recently, John Rigas was sentenced to fifteen years in prison, and his son Timothy Rigas was sentenced to twenty years in prison. They were convicted on charges of looting company funds to the tune of $2.3 billion.[3]

In the summer of 2002, the CEO of Tyco International, Dennis Kozlowski, was indicted for evading sales tax totaling $1 million. After continued investigations by the district attorney, Kozlowski and two other executives were accused of siphoning off $600 million of company money into their own pockets.[4]

Both Kozlowski and Mark Swartz, CFO of Tyco, received prison sentences of eight to twenty-five years for looting $150 million in company funds.[5]

Without a doubt, the executives involved in these scandals had to be evil! They must have been psychopaths, leaders who would stop at nothing, leaders with criminal minds.

Perhaps in a few instances leaders who were responsible for scandals such as these were psychopaths. Robert Hare, who developed the Psychopathy Checklist, an instrument used by psychologists to diagnose psychopaths, estimates that 1 percent of people in business could be classified as being psychopathic.[6]

Yet the truth can often be disconcerting. Far more likely, these leaders are no different than you or us. "Impossible!" you say. "I could never scam shareholders out of $60 billion!"

It's much more tidy and reassuring to blame one or two "evil" people. Myths of good and evil permeate our culture—there are the good guys and the bad guys.

One concept that Sigmund Freud pioneered and got right is that our behavior is multi-determined. There are multiple causes for our actions. The way we act is the result of a complex weave of situational factors, history, and personality. With the advent of social psychology, which is the behavior of individuals in groups, we have learned that the influence of the situation often overpowers the influence of personality. Even if we have good ethical values to begin with, given certain situational pressures, every one of us can become unethical.

From the ages of ten to eighteen the primary author of this book, Robert Hoyk, had one passion—magic. He performed for birthday parties, community functions, schools, colleges—he even performed one time at the Magic Castle, a private club for magicians in Hollywood.

Imagine that you're watching one of his favorite close-up tricks. Hoyk borrows a quarter from you. He picks up an empty drinking glass and drops the quarter into the glass. It clatters to the bottom. You're standing only a few feet away from him. He makes several magic passes with his hand and, suddenly, the quarter in the glass moves! It begins to levitate! The quarter slowly crawls up the inside of the glass almost to the rim. Abruptly, the coin drops to the bottom of the glass with a clink. Hoyk gives the coin back to you and you turn it over looking for any signs of tampering. None are evident.

How was the trick done? Hoyk used a long, fine, human hair. At each end was a small pellet of wax. One end was attached to his belt with the wax; the other end was lightly stuck to his thumb. When he borrowed the coin he stuck the pellet of wax to one side of the coin—the side opposite your view. With the coin at the bottom of the glass, all he needed to do was very slowly move the glass away from his body and the coin rose in the glass. Really, the coin didn't move—it was the glass that moved. But the coin looked like it was floating up the inside of the glass.

When you know how the trick is done, you clearly see the fine hair attached to the coin. You see the hair running up the inside of the glass, over the rim, and horizontally to Hoyk's belt. *Once you're aware of the hair, it's hard to believe that you didn't see it before. You can see it plain as day once you know it's there.* With awareness, illusions are just magic tricks that seem obvious. Without awareness, life's illusions trap us and distort our perception.

In this book, we will describe forty-five traps that every one of us falls prey to. Some of these traps distort our perception of right and wrong—so we *actually believe* our unethical behavior is right. The traps are psychological in nature, and if we're not aware of them they are like illusions—webs of deception. Once we see them, like the human hair in the magic trick, they lose much of their power to deceive us and we can more easily navigate around them.

In all likelihood, the traps we'll describe in this book helped to deceive ordinary people and sway them to torture and murder millions of human beings in Hitler's Germany. They probably influenced ordinary people to commit mass suicide and murder their children in Jonestown. In our analysis, these traps significantly contributed to the disasters of Enron, Adelphia, and Tyco.

Let's look at a company that had a tradition of high moral conduct that became trapped. In 2001 and again in 2002, Johnson & Johnson was ranked as the number one company Americans respected and admired. The company's credo states that its foremost responsibility is to the people who use its products. It's obligatory for all employees of this international company to be familiar with its credo.[7]

The credo was developed after the well-known Tylenol case in 1982. Johnson & Johnson recalled from stores thirty-one million containers of Tylenol following the death of eight people. Tylenol capsules had been opened and the ingredients mixed with cyanide. The company was not to blame for the deadly altering of the ingredients. Nonetheless, Johnson & Johnson redesigned the packaging so that in the future the Tylenol capsules could not be tampered with. The recall cost the company close to $2.5 billion in revenues.[8] This case has often been used in textbooks as a prime example of ethical conduct.

Sixteen years after the Tylenol case, LifeScan, a division of Johnson & Johnson, was raided by federal agents. LifeScan manufactured SureStep, a device that diagnosed diabetes. The company had withheld information from the F.D.A. concerning a defect in the software for SureStep. Johnson & Johnson was indicted for criminal charges and pleaded guilty. The company paid $60 million in fines. Ralph Larsen, CEO of the company, stated that the executives at LifeScan "cared deeply about the company's credo."[9] Were these executives evil? More than likely, they were normal people. Probably, they got caught in a trap called *minimizing*, which we'll describe later.

The vast majority of people care about ethics, but are vulnerable to the traps described in this book. Good intentions are not enough to combat these forty-five traps. One of the most important ways to guard against corruption is to understand and be aware of these traps that distort our perceptions.

Knowledge of these forty-five traps will help the individual stay away from corruption. *Voyagers who know the location of quicksand navigate around it.* When we clearly identify danger, we can prepare for it and avoid it. Knowledge of these forty-five traps can give people the awareness that will enable them to make a difference; it will help individuals recognize and stop corruption at its roots—corruption within themselves and their organizations. Moreover, knowledge of these traps will aid individuals at all levels of an organization—from volunteers in nonprofit organizations to CEOs of large companies.

Corruption is widespread. A 2000 survey conducted by an accounting firm established that 49 percent of employees thought that if the misconduct within their business was made known, their organization would "significantly lose public trust."[10] We all work for or

belong to organizations. The traps described in this book can erupt in any organization environment.

Three years ago Bernard Ebbers, the CEO of WorldCom, was convicted in a federal court of an $11 billion dollar accounting fraud. He was given a prison sentence of twenty-five years! WorldCom was the largest bankruptcy in the history of the United States.[11] Given the fact that our society is based on organizational systems and that trillions of dollars flow through Wall Street, there will always be a need for awareness of the traps described in this book.

WHY DO TRAPS EXIST, AND WHAT ARE THEY?

TRAPS EXIST because at any given moment in time we have impulses that motivate us to act. These impulses are reactions to internal or external stimuli. Sometimes a stimulus is so powerful or triggers such automatic behavior that we act on it without being aware that other options exist. At other times, we are aware of other choices but the stimulus's effect overrides these potential actions.

Social-psychological traps are similar to fish traps. Fish traps are wire cages that have an entrance shaped like a large funnel that narrows toward the inside of the cage; the special funnel design directs the fish to swim into the trap. In the same way, an individual or organization begins to move in a certain direction. Later, the action turns out to be disastrous without any simple means to reverse course.[1] The essential question to ask is, *What* makes the individual or organization begin to move in the ill-fated direction? The forty-five "traps" in our book are descriptions of the different internal or external stimuli that compel people to begin this movement toward disaster.

For example, the first trap delineated in this book is *obedience to authority*. As children we were all primed to obey our parents. Our survival depended on it. In school this conditioning continued. We automatically knew that we had to show deference to our teachers. Consequently, later in life, as adults, when our boss orders us to do something we quickly obey without thinking.

If a person of authority orders us to do something that is unethical, *obedience to authority* is such a powerful external stimulus that we are prone to obey the order without being aware that we're going against our ethical principles. At other times we might be aware that we're acting unethically but the impulse to obey is so strong it overrides our ethical judgment.

In this book we propose three main categories of traps: Primary, Defensive, and Personality.

Obedience to authority is a Primary Trap. Primary Traps are predominately external stimuli. These are the main traps that have the potential to impel us to move in a certain direction without regard for our ethical principles.

Defensive Traps are in a very different category. Although some of them can at times be included with Primary Traps, these traps are basically attempts to find easy ways to reverse course after a transgression has already been committed. For the most part, Defensive Traps are maneuvers that are reactions to two internal stimuli: guilt and shame. Guilt and especially shame are very painful emotions. They call into question the positive view we have of ourselves. Defensive Traps are insidious because they are often very successful at annihilating or at least minimizing our guilt and shame. They help us deny our transgressions, thus setting us up for repeated unethical behavior.

Personality Traps are exclusively internal stimuli. These traps are various personality traits that can make us more vulnerable to wrongdoing.

It should be noted that at times our behavior is affected by more than one trap simultaneously. Several external traps can influence us at the same time, as can a combination of internal and external traps.

Depending on the context, most traps are benign and can have a positive influence on our lives. For example, *empathy* is often the cornerstone of good ethics. But in some circumstances, this personality trait can actually overpower our sense of fairness. Traps can incite tunnel vision. The pull to act on them is so strong that we can become blinded to other behavioral options. They can lead us and the people we respect and admire, even whole companies, rapidly down the path of corruption.

WHY THIS ISN'T JUST ANOTHER BUSINESS ETHICS BOOK

Many books on business ethics for the general public teach values or rules; for example, "follow the Golden Rule." But even if we have good ethical values to begin with, we can all become unethical—trapped by the situational pressures and self-deceptions illustrated in this book.

Traditionally, books on ethics used in business schools or for undergraduate courses present vignettes of ethical dilemmas professionals are likely to face in their particular fields, such as pollution, sexual harassment, product safety, and discrimination, which have no clear right or wrong answers. To solve these "grey dilemmas," such books usually outline a process that involves eight to twelve steps based on principles from philosophy. One of the top-selling business ethics texts includes the following process:

Twelve Questions for Examining the Ethics of a Business Decision

1. Have you defined the problem adequately?
2. How would you define the problem if you stood on the other side of the fence?
3. How did this situation occur in the first place?
4. To whom and to what do you give your loyalty as a person and a member of the corporation?
5. What is your intention in making this decision?

6. How does this intention compare with the probable results?
7. Whom could your decision or action injure?
8. Can you discuss the problem with the affected parties before you make your decision?
9. Are you confident that your position will be as valid over a long period of time as it seems now?
10. Could you disclose without qualm your decision or action to your boss, your CEO, the board of directors, your family, society as a whole?
11. What is the symbolic potential of your action if understood? If misunderstood?
12. Under what conditions would you allow exceptions to your stand?[1]

After reading a vignette that describes an ethical dilemma, the student uses these questions to sort out what's right and wrong—to make the best possible ethical decision.

But can ethics be taught by dilemmas and processes based on philosophical principles? Do traditional courses and textbooks actually make a difference? It's clear that students who have received ethics education, when evaluated by paper-and-pencil instruments such as *The Defining Issues Test*, demonstrate increased moral judgment.[2] What's not clear is whether ethics education actually affects behavior in the work environment.

A little over twelve years ago, Joseph Badaracco, an ethics professor at Harvard Business School, conducted thirty extensive interviews with recent M.B.A. graduates who had faced ethical dilemmas in the business world. All of the thirty managers had taken a class on business ethics at Harvard. About half of them worked for companies that had official ethics programs. Badaracco writes, "[C]orporate ethics programs, codes of conduct, mission statements, hot lines, and the like provided little help . . . the young managers resolved the dilemmas they faced largely on the basis of personal reflection and individual values, not through reliance on corporate credos, company loyalty, the exhortations of senior executives, philosophical principles, or religious reflection." The majority of the Harvard managers had learned their personal values primarily from their family upbringing, not from ethics courses.[3] This study suggests that traditional ethics education that is based on philosophical principles does not transfer to the workplace.

After Badaracco's study, we are not aware of any other research that has attempted to link ethics education with actual behavior in the working world. However, in the past twelve years ethics texts have improved. More emphasis is being placed on management ethics, setting up and maintaining an organizational culture that fosters good ethics. *But what is mostly lacking in books on ethics is a major emphasis on the psychological dynamics of unethical behavior.*

Training in traditional ethics is very poor at helping people stop their immoral behavior. Ethics does a good job with its primary task: given different situations, it tells us what is the right thing to do. The problem is, even if we know what the right behavior is we often don't do it. *Ethics needs to be integrated with psychology.* Once it is, ethics can continue its important task of telling us what we should be doing and psychology can help us stop our immoral behavior and motivate us to do the right thing.

Many of the Harvard managers interviewed in Badaracco's study confronted the trap *obedience to authority*; they were overtly told to act unethically by their bosses. For example, one Harvard manager was instructed "to make up data to support a new product introduction. When he began to object, his boss cut him off and said 'Just do it.'" Ordered to act unethically, these entry-level managers experienced intense anxiety. If they didn't obey, they worried that they would lose their boss's support, which was crucial to be "a candidate for the fast track and a team player." Ultimately they worried about destroying their careers and losing their jobs.[4]

Let's look back at the "Twelve Questions for Examining the Ethics of a Business Decision." Are any of these questions relevant to the issues these Harvard managers faced? If the managers had used them, would they have helped? Overall, the "Twelve Questions" would have offered little assistance. Only question 10, "Could you disclose without qualm your decision or action to your boss, your CEO, the board of directors, your family, society as a whole?" is relevant to the resolution style used by the Harvard managers. From the content of the interviews, it's evident that how others perceived their integrity was important to them.[5]

The crucial problem these Harvard managers faced was the intense anxiety that resulted from the trap *obedience to authority*. Emotions can bring us all to our knees. Many of the traps in this book incite powerful emotions that in turn pull us toward wrongdoing.

The "Twelve Questions" would have had no influence over lessening the Harvard managers' intense anxiety, which ultimately would have driven them to act unethically. The managers were able to cope with their anxiety by reassuring themselves that they were still young and their careers were just beginning. They told themselves they could always find work in another company if being ethical resulted in the loss of their jobs. For the most part, the Harvard managers were able to resolve their dilemmas because of this flexibility. They also acknowledged that had they been older, with families and invested status in the company, finding new employment would have been less of an option.[6] So what about middle managers, for instance, who don't have this flexibility, who have spent years climbing the corporate ladder and have a family to support, what do they do when intense anxiety hits?

The anxiety provoked by the trap *obedience to authority* revolves around two issues: career advancement and being considered a team player. It's important to realize that these issues are two additional traps: *conformity* and *self-interest*. (The trap *self-interest* has three subtypes: *tyranny of goals*, *money*, and *conflicts of interest*.) A trap, then, can stir up one or more other traps.

In spite of this, if middle managers have a firm knowledge of the traps in this book, they can use their understanding to objectify what's happening to them. A manager can think about or preferably talk to a friend regarding the nature of the traps he or she is confronted with, their allure, and the possible distortions they evoke. Through this process, a bit of distance is created between the person and his or her worries; and thus the anxiety is lessened. Moreover, the awareness that they're struggling against several traps simultaneously will likely compel managers to slow down and be more cautious, alert, and vigilant. Consequently, their deliberations will be clearer. If middle managers can take the extra time gained from being more cautious and talk about their anxieties sufficiently, a process called desensitization happens and their anxiety is significantly reduced. In general, by retelling something over and over people can emotionally habituate to any type of distress. At this point, the manager is well on the way to avoiding the traps. If the manager's anxiety still remains too high, it is best dealt with by techniques of psychology—skills a psychologist can teach.

Psychology can both explain the nature of traps and structure the approach to avoiding or remediating them. Our book places a major focus on the root causes of unethical behavior—psychological dynamics. It inaugurates a new priority in the field that we hope will lead to a clearer vista and fresh solutions.

A WORD ABOUT RESEARCH

WE USE EXAMPLES of experimental research in this book to support the evidence for the forty-five traps. People often criticize research as not being "the real world." Why don't we just use real-life examples from the business world without research? In the "real world," there are so many influences that happen simultaneously to cause unethical behavior that conclusions are pure guesswork. It is only through research, by strictly controlling the circumstances, that we can take each influence one at a time, without the others, to see if it indeed has an impact.

Moreover, by using research, we can sort out the influence of the situational elements versus the influence of character traits. The influence of the situation often has more power than personalities. Experimental research is a system that sets up tightly controlled circumstances and then looks at the effects of each aspect of a situation on randomly selected people called subjects. When this process is carefully done, we can generalize the results of the experiment to anyone.

When Philip Zimbardo conducted his acclaimed prison study at Stanford University (see Trap 17), he was trying to understand brutality that often erupted in prisons. He speculated that the environment and the "institutional roles" of the prison guards might be a stronger influence on their behavior than who they were as people. *To prove his idea, Zimbardo knew that he had to set up an experiment that* *used subjects who had never seen the inside of a prison.* He also knew that he had to randomly assign subjects to play the roles of guards and prisoners. Using this methodology, any brutality that erupted in the experiment could be attributed to the environment and the roles enacted.

In the same way, our book is trying to scientifically demonstrate that anyone subjected to particular roles or situations can become trapped and behave unethically. Therefore we have chosen to spotlight true, experimental designs that utilize subjects, as much as possible, from the general population.

More than one friend upon seeing the title of our book, *The Ethical Executive*, has exclaimed, "That's an oxymoron!" By describing experiments in our book that employ non-businesspeople as subjects, we hope to counter this bias and leave the reader with the message that unethical traps are universal and we all fall prey to their influence.

PART I: PRIMARY TRAPS

This section will describe and explore twenty traps that cause people to behave unethically. These are the main traps that pull us in; the traps that provoke us or trick us into illegal or unethical transgression.

TRAP 1: OBEDIENCE TO AUTHORITY

AFTER THE SECOND WORLD WAR, scientists were driven to understand the insanity of the Holocaust. Citizens of Germany had committed immoral acts, torture and murder, against millions of human beings. How could *normal* people behave so atrociously? In 1960, Stanley Milgram at Yale University was one of the researchers who wanted to understand how such a horror could ever happen.

IMAGINE. You've volunteered to be a subject in a scientific experiment. You've read an ad in the local newspaper that a professor at Yale University is conducting an experiment and needs subjects. The experiment has to do with learning and memory. You'll be compensated $4.50 for an hour of participation. In 1960, $4.50 had much more value than it does today. You're a high school teacher just out of college. You have an interest in psychology so you decide to sign up.

You're scheduled to participate in the experiment on a Saturday morning. You have a little trouble finding the laboratory on the campus of Yale, but you make it on time. You meet with a professor of psychology, Dr. Milgram, who is wearing a gray laboratory coat. Dr. Milgram introduces you to Mr. McCourt, another subject who has also volunteered. Mr. McCourt is softspoken and has an Irish accent. With a lively smile, he gives you a firm handshake. It is only later, after the experiment is finished, that you will be told that Mr. McCourt is actually an accomplice, a professional actor, someone trained for the part. But at the time, you don't know this. You think he is another volunteer like yourself. You meet in a waiting room around a rosewood reception desk.

Dr. Milgram begins by stating that psychology still lacks a comprehensive understanding of how punishment influences learning. Psychologists have conducted numerous experiments with animals to explore the relationship between punishment and learning but there have been very few experiments that have used human subjects. You ask Dr. Milgram what he means by punishment. The ad in the paper said nothing about punishment. He replies by saying, "We'll get to that a little later." Dr. Milgram holds out a hat with two folded pieces of paper inside. "I'd like you each to pick a slip of paper to decide which one of you will play the teacher role and who will play the student role."

You don't find out until after the experiment is over that both pieces of paper have written on them the word "Teacher." Mr. McCourt will always play the role of the student.

Mr. McCourt and you are then led into an adjoining room, and Mr. McCourt is asked to sit in an "electric chair apparatus." Dr. Milgram straps Mr. McCourt to the arms of the chair and attaches an electrode to his right wrist. "It's important," Dr. Milgram explains, "that his arms are immobile during shock so he won't disconnect this electrode. I'm applying some electrode paste to avoid blisters and burns. This electrode is connected to a shock generator. I'll show you the generator shortly."

You notice that Mr. McCourt's face is taut and he's blinking rapidly. He looks up at Dr. Milgram. "This isn't dangerous is it? I mean, I have a heart problem."

Dr. Milgram shakes his head. "Although the shocks can be extremely painful, they cause no permanent tissue damage."

You're then led to the adjoining room and take a seat in front of the shock generator. The generator has an instrument panel with thirty switches in a line from left to right. Directly above every switch is engraved a voltage level. Levels are printed in ascending order. The lowest level is 15 volts and the highest is 450 volts. There are also word labels above the numbers ranging from "Slight Shock" all the way to "Danger: Severe Shock." You have no visual contact with Mr. McCourt.

You communicate via intercom. At this point, Dr. Milgram attaches an electrode to your wrist, "I'd like you to experience a shock of 45 volts so you can get an idea of what it's like for the student." You sit back in your chair and Dr. Milgram presses the third lever on the instrument panel. You jump forward with a yelp! You had no idea 45 volts was that painful. You make light of it by saying, "I'm sure glad I'm the teacher."

Dr. Milgram then instructs you on how to give the memory test and tells you to shock Mr. McCourt if he expresses a wrong answer. You're also instructed that with each successive error, you are to increase the voltage to the next level.

You begin the memory test by reading into the intercom a list of words paired together. You later recite one of the words in each pair, and Mr. McCourt's task is to recall the other word in the original pair.

At the beginning of the experiment, things go well. But as the memory test continues Mr. McCourt begins to make more and more errors. You have to increase the level of shock substantially.

At 75 volts, you hear Mr. McCourt groan loudly over the intercom. At 120 volts, Mr. McCourt shouts that the shocks are very painful. When you administer a shock of 150 volts, he shouts, "Stop! Release me! I refuse to continue!"

At this point you take a deep breath and push your chair away from the generator. You rub your hands together and notice that your palms are sweaty. You begin to rapidly jiggle your left leg. You turn to Dr. Milgram and say "I don't like this, I'm not sure I want to go on. I'll hurt his heart!"

Dr. Milgram looks straight into your eyes and says, "It's absolutely essential that you continue. You have no other choice, you must go on." And what do you do? You continue to be obedient. You continue to shock Mr. McCourt all the way to 450 volts, all the way to "Danger: Severe Shock."

Of course, during the experiment subjects actually think they're shocking Mr. McCourt and don't realize that he's only acting. This experiment was repeated over a hundred times. *Sixty-five percent of the subjects who participated continued to administer shocks up to the highest level.* Stanley Milgram concluded that obedience is an "impulse overriding training in ethics, sympathy, and moral conduct."[1]

Out of all the subjects who participated in Milgram's experiment, there was only one subject who upon hearing what his task was as the teacher refused to play his role and walked out before the experiment started. Who was the subject?—a Holocaust survivor.

IF SUBJECTS IN A ONE-TIME EXPERIMENT with a stranger, a professor whom they will likely never see again, cannot resist the impulse to obey, imagine how much harder it would be for employees in a corporation who have their jobs, futures, and families' welfare potentially at stake.

A corporation is a hierarchical organization similar to the military. What the boss says goes. If you want to keep your job, you obey. In such an authoritarian environment, it's difficult to disobey a manager who demands that you do something unethical. The stronger the authoritarian structure of the organization, the more the members are primed to be obedient and not to challenge their leaders.

For example, in the third quarter of 2001, the CFO of WorldCom, Scott Sullivan, had ordered the controller, David Myers, to hide expenses that totaled $800 million in the accounting books to create the illusion that the company had a high rate of earnings. Myers obeyed the order.[2]

As we'll see when we look at the next trap, it's especially hard to disobey a manager if at first he or she asks you to do something unethical that seems minor.

TRAP 2: SMALL STEPS

IF YOU PUT A FROG in a pot of boiling water, it will frantically try to scramble out. But if you put a frog in a pot of room temperature water it will stay. If you slowly heat up the water, something happens that is quite amazing. As the temperature rises from 70 to 80 degrees, the frog stays put. If you continue raising the temperature little by little, in *small steps*, the frog will become groggier and more torpid until it is incapable of climbing out of the pot. It will eventually die.

Often, unethical behavior happens little by little, in *small steps*, and progressively becomes more and more severe. After awhile, one is able to tolerate a certain severity of one's own unethical behavior. One would not, however, tolerate this level if it occurred all at once in a large dose at the very beginning.

In February of 2002, Enron's board of directors formed a committee to investigate the CFO of the company, Andrew Fastow. The report released by the committee describes Enron's "slow journey into accounting hell."

In the beginning, Fastow began by making relatively *small steps* down the road of corruption. Fastow broke two regulations when he created a special purpose entity (SPE). An SPE is basically another company. Fastow used the SPE to keep financial debt off the books. The SPE would have been legal if at least 3 percent of its capital was not linked to Enron. Fastow engineered the SPE so that it seemed to have the required 3 percent. In reality, the 3 percent equity was provided by Michael Kopper, Fastow's right-hand man. This inside investment was buried in a complex financial arrangement. Further, Fastow needed authorization from the board of directors to establish the SPE. He never obtained the necessary permission.[1]

TRAP 1, *obedience to authority*, becomes more treacherous when it is combined with Trap 2, *small steps*. It seems less innocuous if we obey an order from our boss to do something unethical that is relatively minor at first. If our boss increases, little by little, the magnitude of the transgressions he or she directs us to do—over a long period of time—we can become desensitized to our own unethical behavior.

Milgram's experiment on obedience (Trap 1) also incorporated the trap of *small steps*. You may remember that the subject administered a memory test to the "student" (confederate) and shocked him when he expressed a wrong answer. The subject was instructed that with each successive error, he was to increase the voltage to the next level. There were 30 voltage levels ranging from 15 volts to 450 volts.

When the subject pressed the first switch, it was a mild shock of 15 volts. By the time the confederate began to verbally protest by groaning, the subject had already shocked the confederate five times and the level of intensity had increased to 75 volts.[2]

SIDESTEPPING RESPONSIBILITY

ONE OF THE BEST INSTRUMENTS used to predict moral behavior is the *Ascription of Responsibility Scale* developed by Shalom Schwartz at the University of Wisconsin. Those who rate high in "ascription of responsibility" endorse such items on the scale as, "If I hurt someone unintentionally, I would feel almost as guilty as I would if I had done the same thing intentionally" or "Being very upset or preoccupied does not excuse a person for doing anything he would ordinarily avoid."[1]

When our sense of responsibility is weakened, we are more apt to behave unethically.

TRAP 3: INDIRECT RESPONSIBILITY

During the Second World War, many civil servants in Germany were willing to do clerical work for the Holocaust. Their readiness amazed the Nazi command. The civil servants saw themselves as only doing paperwork, not exterminating Jews.[1]

Milgram's experiment on obedience (Trap 1) tested this tendency to deny responsibility when one is less directly involved. An additional subject was signed up to help. This new subject was only to administer the memory test while the other subject administered the shock. Forty new subjects were run through the experiment in this manner. Out of the forty, thirty-seven complied fully. Obedience for these new subjects that were indirectly involved rose to 93 percent. That is, 93 percent of these subjects continued participating until the confederate was shocked up to the highest level of intensity.[2]

TRAP 4: FACELESS VICTIMS

In Milgram's experiment on obedience, the more anonymous the victim was, the easier it was for the subjects to deliver intense shocks. When no groans or protests were heard from the confederate in the next room, almost all of the subjects calmly delivered shocks to the highest level of intensity. If the confederate was seated in the same room as the subject, 40 percent of the subjects delivered shock to the highest level. If the subject was directed to manually press the confederate's hand onto a mental plate which delivered the shock, the obedience rate declined to 30 percent.[1]

In a world of international corporations, anonymity is the order of the day, imposed through the use of email, automated voicemail prompts, and videoconferencing. The larger the corporation, the more insulated executives are from their shareholders, employees, and customers.

In the early 1970s, a woman named Sandra Gillespie was driving her Ford Pinto. A thirteen-year-old boy, Robbie, was also in the car. Sandra changed lanes and her car stalled. A car that was going twenty-eight miles per hour hit her from behind. The gas tank of the Pinto split open and the car exploded into a massive fireball. Sandra died a painful death and Robbie's face was burned beyond recognition.

Harley Copp, a Ford executive who headed up the safety testing of the Pinto, testified in court that "the highest level of Ford's management made the decision to go forward with the production of the Pinto, knowing that the gas tank was vulnerable to puncture and rupture at low rear-impact speeds creating a significant risk of death or injury from fire and knowing that 'fixes' were feasible at nominal cost." Numerous deaths and severe injuries were caused by the gas tank defect.[2]

Ford documents revealed that a cost-benefit study had been conducted by the corporation. The conclusion of the study stated, "It would not be worth the cost of making an $11 improvement per car in order to save 180 people from burning to death and another 180 from suffering serious burn injuries each year." In this internal document, "dead and injured persons" were often called "*units*." [Italics added.][3]

In 1978, a person severely injured from a Pinto explosion sued the Ford Motor Company and was awarded $125 million. The judge of the case declared, "Ford's institutional mentality was shown to be one of *callous indifference* to public safety." [Italics added.][4]

There could be many reasons for the Pinto scandal. One of the probable influences was anonymity. When victims of corruption are faceless, it is easier to do them harm. If family members of Lee Iacocca, the president of Ford at the time, had died in a Pinto explosion, the "callous indifference" might have melted and the "units" might have been called Jane or Cynthia.

TRAP 5: LOST IN THE GROUP

Being involved in a group often diminishes our concerns of being held personally responsible when the group as a whole acts unethically. When we make group decisions, our individual accountability is weakened. When the group is responsible, individual members of the group feel less at fault. Ethical transgressions done by a group can easily be blamed on other members.[1]

Albert Bandura at Stanford University conducted an experiment that demonstrated how being lost in a group can influence the ethical behavior of individual members.

Subjects were run through the experiment three at a time. The group of three subjects played the role of "supervisors." Subjects were told that the study was about "the effects of punishment on the quality of collective decision making." The subjects were informed that three "decision makers" were in an adjacent room. The decision makers would be presented with different bargaining situations, and their task was to generate effective negotiating strategies. A lab assistant was to judge the merit of the strategies the decision makers generated. If the lab assistant judged a given strategy as inadequate, the assistant would inform the group of subject-supervisors via a flashing red light on a console. (In actuality, the decision makers didn't exist.)

Each of the three subject-supervisors sat in front of "an aggression device for delivering shocks in 10 levels of intensity." When they saw the flashing red light, they were to shock the decision makers with "any intensity they saw fit."

Subjects ("supervisors") had been randomly divided into two different conditions. Half of the subjects had been assigned to an "individualized responsibility" condition and the other half to a "diffused responsibility" condition. In the "individualized responsibility" condition, subjects were told that "each of them was assigned supervisory responsibility for a member of the decision-making team and that they personally determined the level of shock that their supervisee received on each punishment trial." Subjects in the "diffused responsibility" condition were told that "the shock levels they selected were automatically averaged by the device so that the level of shock received by their supervisees represented the average of their collective decision on each punishment trial."

After all the statistical data of the experiment had been analyzed, it became evident that subjects in the "diffused responsibility" condition significantly shocked the decision makers with greater intensity compared to subjects in the "individualized responsibility" condition.[2]

When we are immersed in a group, our sense of accountability is diminished and we're more apt to harm others.

TRAP 6: COMPETITION

IN THE 1990S, management consultants extolled the "Darwinian revolution." They coached executives to intensify *competition* within the company. It was reasoned that what was good for our economy in its entirety was good for individual companies.

In general, *competition between* companies fosters creativity, hard work, and greater wealth. But *competition within* companies can incite workers to hide information; it can cause mistrust and betrayal.[1]

How is *competition* defined? A clear definition was described in an experiment by social psychologists. In the experiment there were two children, Sam and Michael, who participated. Sam was offered M&M candies. He was given two choices:

Choice #1: Sam gets three M&Ms
Mike gets two M&Ms

Choice #2: Sam gets five M&Ms
Mike gets six M&Ms

Sam chose the first option—he was very competitive. Notice that in the second option he could actually have increased his own gain but Michael would have gotten more candies. Sam was driven to be one up from Michael no matter what the gain.

Before we continue, we need to define ethical behavior. Many of the examples in this book about unethical behavior are actions that are illegal. Most of the examples in this chapter, while unethical, are not illegal.

In general, an ethical behavior is an action that engenders trust. It is a behavior that, as much as possible, creates *non-zero-sum* situations instead of *zero-sum* situations. These two terms, *non-zero-sum* and *zero-sum* are taken from game theory. In zero-sum situations, the outcomes of those involved are "inversely related." One person's benefit "is the other's loss." For example, in competitive sports, when one football team wins the other loses. The term *zero-sum* is derived from the inverse relationship, for example, +1 added to −1 = zero. In non-zero-sum situations, one groups' win doesn't have to be a misfortune for the other. The more that the needs of all parties are identical, the more there is a non-zero-sum situation. When the Apollo astronauts were marooned in space in 1970, their needs completely overlapped. The results of their actions to get back home would be either uniformly good or bad for all three of them. Note that in non-zero-sum interactions, the result can either be win-win or lose-lose. Overall, non-zero-sum interactions create more shared benefit and mutual trust.[2]

Research has discovered that children intuitively use three principles when making ethical decisions: (1) "Amount of harm/benefit; (2) Actor's intentions; and (3) The application of agreed-upon rules or norms."[3] These three principles are the foundation for the more complex strategies used by adults. Non-zero-sum interactions typically increase the amount of mutual benefit over harm, have intentions to serve the needs of the greatest number of people without violating the rights of minorities, and take into account rules and norms.

It's important to understand that in certain situations, the amount of benefit or harm may override the importance of agreed-upon rules or norms. For example,

> In Europe, a woman was near death. . . . One drug might save her. . . . The druggist was charging $2,000, ten times what the drug cost him to make. The sick woman's husband, Heinz, went to everyone he knew to borrow money, but he could only get together about half of what it cost. He told the druggist that his wife was dying and asked him to sell it cheaper or let him pay later. But the druggist said, "No." The husband got desperate and broke into the man's store to steal the drug for his wife.[4]

The husband in this vignette breaks the law but the amount of harm caused by stealing the medicine is much less than the potential death of his wife. His behavior might be considered ethical given the circumstances.

Let's look again at Sam and Michael. Sam chose the first option of having *three* M&Ms so that Michael would get *two* M&Ms. Was this a choice that enhanced mutual benefit and trust? What were Sam's intentions? It's clear that the second option, in which Sam would get *five* M&Ms and Michael would get *six*, is more of a non-zero-sum interaction. With this second option, both of them would receive a greater amount of benefit. With the competitive option, Sam had to win no matter what. His intention was to be one up from Michael. If Michael ever discovered that Sam had been given the two options and chose the one that minimized benefit for both of them for the purpose of winning, Michael would lose trust in Sam.

At Enron, Darwinian policy was intense. The company had a "rank and yank" policy. "Every six months" employees were rated on a "1-to-5 scale." A rating of 5 was equal to an excellent evaluation. Executives in charge of rating employees were mandated to rate fifteen percent of the entire workforce as a 1. Those who received this low rating were automatically fired. Personnel who were rated 2 and 3 were told that they might be fired within the next twelve months if they didn't show improvement. This means that on any given day, 50 percent of Enron's workers were fearful of losing their employment.[5] This rank-and-yank policy of Enron created a backstabbing, highly competitive culture.

Now, let's say you were an employee at Enron. Just recently you had been given a rating of 2 or 3. An executive comes to you and *orders* you to do something. Wouldn't you jump to it, even if what he wanted was questionable ethically?

Robert Blake and Jane Mouton, professors at the University of Texas, conducted a number of experiments that demonstrated the influence of *competition*.

Typically, Blake and Mouton would structure their experiments by forming four groups of managers with a dozen members each. The groups met regularly for two weeks. All the groups were given the same problem to solve. The researchers made it clear that each group would be in *competition* with the others. One group would win the *competition* and the others would lose, dependent upon the solutions generated.

Each group developed a solution and then wrote a report to explain it. These reports were duplicated so that each group received a copy of their own report and the reports of the other groups. The groups were then asked to evaluate the four reports as to their suitability using a nine-point scale ("totally adequate to totally inadequate"). Following this, each group was asked to compose a number of questions for the other groups about their solutions. These questions would be distributed to the appropriate groups.

Upon analyzing the questions that were generated, Blake and Mouton found that these questions were such that an answer to any question would "embarrass those who respond to it." The questions were intended to "weaken the position" of those who answered, not to understand or to help find the best solution.

The groups were then asked to choose a representative. The representatives were to meet and choose the solution that was the best. The agreement would be via consensus. The researchers discovered that 94 percent of the time, representatives created a "deadlock" so that a decision couldn't be made. Blake and Mouton recorded that "*sometimes intergroup antagonism grew so intense that the experiment had to be discontinued.*" [Italics added.][6]

"Intergroup antagonism . . . so intense that the experiment had to be discontinued" cannot be behavior that would engender trust or maximize benefit over harm. As regard to intentions, questions that were composed about the solutions of competing groups were intended to "embarrass" and "weaken the position" of other group members instead of finding the best solution. The behaviors created by the *competition* in this experiment were indeed unethical.

Competitiveness is the desire to be better, stronger, and more powerful than the other no matter what—even if one has to act unethically to get there. It is a zero-sum game, a desire to beat the other even if all participants are left with fewer M&Ms on their plates. Being competitive is frequently reinforced by the next category of traps, *self-interest*.

SELF-INTEREST

WE ARE ALL BORN with basic impulses or drives that help us survive. We have "*self-interest* needs"—acquiring food, shelter, clothing, money—that satisfy our innate drives of hunger, thirst, and pleasure. We also have "other-interest needs"—cooperating, altruism—that satisfy our drives of attachment and bonding with others. *Self-interest* and other-interest needs can often be in conflict. We want to earn as much money as we can for our families and our own well-being but also want to be fair to our shareholders and customers. This conflict of needs is often the central underpinning of ethical dilemmas.[1]

What makes things more confusing is that *self-interest* and other-interest needs are not clearly separate. One can make an argument that they are one and the same. For example, altruism can be seen as a "selfish" motive. The following is a true incident in the life of Abraham Lincoln, "one of the most altruistic of men":

> Mr. Lincoln once remarked to a fellow-passenger on an old-time mud-coach that all men were prompted by selfishness in doing good. His fellow-passenger was antagonizing this position when they were passing over a corduroy bridge that spanned a slough. As they crossed this bridge they espied an old razor-backed sow on the bank making a terrible noise because her pigs had got into the slough and were in danger of drowning. As the old coach began to climb the hill, Mr. Lincoln called out, "Driver, can't you stop just a moment?" Then Mr.

Lincoln jumped out, ran back, and lifted the little pigs out of the mud and water and placed them on the bank. When he returned, his companion remarked: "Now, Abe, where does selfishness come in on this little episode?" "Why, bless your soul, Ed, that was the very essence of selfishness. I should have had no peace of mind all day had I gone on and left that suffering old sow worrying over those pigs. I did it to get peace of mind, don't you see?"[2]

TRAP 7: TYRANNY OF GOALS

We can be inspired by our goals to succeed, to climb the corporate ladder, to achieve status and recognition—but our goals can also drive us. Goals can become all important. We can move too fast, take short cuts, do anything to reach our goals. "Ends are used to justify means." We're more apt to cheat and lie when we're striving for an important goal and we encounter major roadblocks that stand in the way of achieving that goal.[1]

In 1967, B.F. Goodrich landed a contract with the U.S. government to provide brakes for fighter planes. A scandal ensued when "a tight schedule produced shortcuts in quality control. Competition for the work led to underestimation of the time required to complete it which, in turn, led to 'pressure' on supervisors to pass defective equipment as sound."[2]

In this well-known business scandal, B.F. Goodrich supervisors were driven to complete a contract within an unrealistic time frame. When roadblocks to completion got in the way (defective equipment) they continued to push for closure—taking an unethical and potentially disastrous shortcut.

Another reason our goals drive us is that we believe achieving them will make us happy. But how much happiness do they actually generate?

One of the authors of this book remembers a friend telling him about a greeting card he had once seen. On the outside of the card was a picture of a little man with a bubble caption that read, "I don't want much—a good job, a family, a house . . ." When you open the card, inside it said, "AND TO BE HAPPY *ALL* THE TIME."

Author Robert Wright, in a recent article in *Time* magazine, writes, "[T]he lure of happiness works best when we're under the illusion that the bliss will persist. Hence the recurring intuition that the next big thing—the promotion, the new car, the new house, the new spouse—will do the trick. Then you will be truly happy. Then you can relax."[3]

We go through life never quite catching on. Feelings of happiness are always transitory. If bliss and euphoria were lasting, we would become habituated to them and they would lose their zing. Drug dealers couldn't make a living if the drugs they sold created a high that was endless.[4]

Systematic studies have shown that important accomplishments, such as being promoted, create euphoria that lasts less than three months. Following this short period of good feelings, our level of happiness goes back to what it was prior to the accomplishment.[5]

What if you won the lottery and became a multimillionaire? Wouldn't that ratchet up your level of happiness? A study by social psychologist Philip Brickman demonstrated that twenty-two people who had won large lotteries slipped back to their previous levels of happiness after a period of time (one to eighteen months).[6]

TRAP 8: MONEY

We all say that money can't buy happiness, but deep down we believe it can. Author Jim Warner wrote in his book *Aspirations of Greatness* about giving two hundred CEOs questionnaires that were confidential. The questionnaires presented fifty-three concerns about their lives. When the CEOs rated the importance of these concerns, over 70 percent rated as their top priority "Financial Independence Is Very Important."[1]

Dr. Diener from the University of Illinois conducted a thirteen-year study to ascertain the influence money has upon our happiness. Diener and his team surveyed a "stratified, national probability sample of 14,407 individuals . . . at 100 locations throughout the continental United States." Diener found that the amount of influence that money has on our happiness is less than 2 percent. In other words, if one were to look at all the influences that affect our happiness (social support, marriage, religion, self-esteem, and so on) more than 98 percent of what influences our happiness comes from factors other than money.[2]

We all need a certain amount of money to feel secure and comfortable. When income drops to poverty levels, our happiness is significantly affected. But we continue to *believe* that making more money will greatly influence our happiness above the poverty level.

Our yearnings create less satisfaction in our lives by what we call the *dissatisfaction gap*: this is the gap between your current salary and what you want. Now, the greater the size of the dissatisfaction gap, the less satisfaction we have. Let's say you make $75,000 a year. Of course it's not enough. You want a new boat, a cabin in the mountains—you need at least an income of $100,000. Therefore, the size of your dissatisfaction gap is equal to $25,000.

Let's say that in five years time you succeed in earning a $100,000 a year. When you achieve your goal, you want more. Your friends send their children to private schools, and you want your children to have the same opportunity. You want a new Mercedes, you want to travel more—you need an income of $125,000. Your new dissatisfaction gap is *identical* to your past dissatisfaction gap—$25,000. In reality, more money has *not* changed how satisfied you are.

But here is where the illusion happens. Because of your belief that more money is better, looking back you contrast your new aspiration, $125,000, with your beginning income of $75,000. You *erroneously double your dissatisfaction gap* and think how miserable you must have been making only $75,000—good thing you're making more now. As your aspirations climb, you continue to use $75,000 as a base to contrast to each new aspiration. In reality, your level of dissatisfaction is between what you currently earn and your new aspiration—not between your beginning income and your new aspiration. This miscalculation creates a larger, false dissatisfaction gap that is then alleviated by your current level of income; this reinforces your belief that more money equals more happiness.[3]

How much income is enough? A large survey asked senior executives that question, and you know what they said? "Thirty to seventy percent more than I have right now!" The majority of executives over the years have pushed their expectations to higher and higher levels. What was enough ten to twenty years ago became passe. With rising expectations they continue to want 30 to 70 percent more than their current level of income.[4]

There's another way our aspirations spiral out of control. We compare ourselves with others. The Greek philosopher, Aristotle, once said that no one in any organization should earn more than five times

the lowliest worker. When there's a large salary discrepancy between employees and executives, unethical behavior can result. One of the reasons for crime in our country is the enormous dissatisfaction gap that the poor suffer in America. People who have no legitimate way to achieve the high levels of income they see others having can be tempted to break the rules.

Sometimes corporations recruit employees straight out of school. Many times the people at the top are making over a thousand times the salary of the new recruits. Those poorly paid recruits are tempted to take short cuts—to break the rules to move to the glamorous upper ranks.[5]

TRAP 9: CONFLICTS OF INTEREST

On March 15, 2005, Bernard Ebbers, the CEO of WorldCom, was convicted in a federal court for one of the largest accounting frauds in the history of the United States. When WorldCom filed for bankruptcy in July of 2000, its assets totaled $107 billion![1]

With the downfall of the "Internet boom" in 2000, WorldCom's profits plummeted and their debts skyrocketed.[2] To keep stock prices high, WorldCom cooked the books so that it could continue to report solid earnings.

Wall Street demands that a company have a rate of return on investors' money equal to 12 percent to 15 percent a year. To keep stock prices up, companies need to meet stock analysts' estimates for quarterly earnings. If a company falls into financial trouble, and begins to report earnings under 12 percent, stock prices fall. If stock prices fall too drastically, investors will sell their stock and seek out other companies to invest in.

In general, the *conflicts of interest* that trap most companies are between the interests of the management and those of the shareholders. A recent study demonstrated that managers "with high equity incentives are more likely to report earnings that meet or just beat analysts' forecasts than managers who have low equity incentives."[3] Ebbers had personally borrowed $400 million and had used WorldCom stock as collateral. He "was obsessed with keeping earnings and revenue figures high."[4]

Investigations by the S.E.C. and the attorney general of New York, Eliot Spitzer, uncovered *conflicts of interest* in the investment and insurance industries also.

In the winter of 2002, Wall Street's ten largest banks, including Merrill Lynch, Morgan Stanley, and J.P. Morgan Chase, agreed to pay aggregate fines of *$1.4 billion*. The banks had been indicted for repeatedly giving misleading advice to ordinary investors.[5]

Due to a change of laws, investment banks now serve two masters. They raise money for corporations by selling stock (corporate clientele) and also advise individual investors. Investors want to buy stock at bargain prices and corporate clientele want to sell their stock at high prices. Investment banks are caught in the middle. The Wall Street Investment Banks were indicted because their analysts had promoted the stock of their corporate clientele to individual investors by giving fraudulent advice.

Evidence from investigations by Elliot Spitzer highlighted stock analysts' deceptive counsel. While endorsing a particular stock to ordinary investors, analysts had described the very stock they were promoting as "crap" and "junk" in their private email.[6]

In the winter of 2005, Marsh & McLennan, "the world's largest broker of commercial insurance," settled to pay fines totaling $850 million to the attorney general of New York! The company was accused of cheating its clients by manipulating bids and giving contracts to insurance companies who had secretly paid them incentives.[7] As a broker of insurance, Marsh & McLennan is paid by their customers to "provide unbiased advice in arranging the best coverage at the lowest prices."[8] Instead, Marsh & McLennan steered customers to insurers based on the bribes insurers had paid them. The self-interests of the company, fueled by greed and *competition*, overpowered the company's sense of responsibility to its customers.

TRAP 10: CONFLICTS OF LOYALTY

WE ALL GET CAUGHT in "*conflicts of loyalty*." At times it's hard to choose between being loyal to our managers or to our coworker friends. At other times we are caught in the middle of being loyal to our families and the demands of our corporations. As one executive said, "My corporate brain says this action is O.K., but my noncorporate brain keeps flashing these warning lights."[1]

Joseph Badaracco, professor at Harvard Business School, offers the following case study in his book *Business Ethics*, which highlights this particular trap.

Jerry is an analyst at Bullard & Bartel (B&B), an investment banking firm. His roommate is his "best friend," Lori. Lori is also an analyst. She works at Universal Bank, a major commercial institution. Even though Jerry and Lori are employed at different firms, by happenstance they are both involved in the buyout of Suntech Corporation. B&B is "orchestrating" the buyout. Universal is providing a loan to Suntech for their "high-growth strategy." At home, Jerry and Lori refrain from discussing business due to corporate confidentiality.

Friday after work, Jerry comes home and finds Lori noticeably distressed. With reluctance she tells him that she has been laid off; Universal has dissolved its "capital finance group." She pleads with Jerry to keep confidential the information she has just told him.

Jerry is concerned about Lori's unemployment. Moreover, he realizes that the dissolution of Universal's capital finance group means that Universal will withdraw its loan for the buyout. This could spell disaster for the buyout as well as for B&B's reputation on Wall Street. If Jerry could let his company know what was going on before the stock market found out, "both the deal and B&B's reputation could be saved." But Jerry has promised Lori that he will not reveal what she has told him.

What makes matters worse is the fact that the banker at Universal, Bill, who is heading up the loan, is currently out of the country and doesn't plan to tell B&B about pulling out of the deal until he's back in town—which could be a minimum of several days.[2]

Should Jerry break his confidentiality with his best friend and tell his company? Or should he say nothing, which could have serious consequences for both his company and perhaps his own future employment?

There is no clear answer to this dilemma. The important thing to realize is that *conflicts of loyalty* are situations that can influence our potential actions and awareness.

Conflicts of loyalty are similar in many ways to *conflicts of interest.* In both traps, we're pulled in opposing directions by two conflicting influences. In contrasting the two, *conflicts of interest* tends to be narrower in its focus. It tends to focus on money and the conflict between the company's management and its shareholders. The next trap, Trap 11, can exert powerful influence on both *conflicts of loyalty* and *conflicts of interest.*