Ethics Under Duress

Dennis C. Morton, Jr.
Financial Consultant

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Good afternoon and thank you for inviting Fr. Tom Dailey and I from the Forum for Ethics in the Workplace to speak on the topic of Ethics Under Duress. The subject is an expansive one as each of us has different principles that govern what we do, depending on the nature of our work. And in these trying economic times, we all have very unique pressures to confront. What I will try to do today is identify some strategies for leaders to develop and maintain an ethical work environment during times of turmoil. To the extent that I have witnessed examples in my own journey I will rely on personal observation, but I want to also provide some historical context to help us feel not so alone in our quest to build ethical organizations.

Yesterday on the SHRM website, some facts and figures were posted about employees under stress: According to the Institute for Corporate Productivity (Workplace Theft Pulse survey, Dec. 11, 2008)

- 27% of companies with 10,000 employees or more said crime in the workplace had risen
- 31% said they noticed an increase in theft of company owned items like office supplies, products, electronic equipment and food
- Employee related monetary theft like padding expense reports, increased by 22%

As leaders in our organizations, these types of activity are the low hanging ethical fruit. They are behaviors that have a clear line of right and wrong and probably disciplinary procedures established. The gray area and the area that I will focus on today is something the University of New Hampshire School of Business has designated Post-Downsizing Stress Syndrome (Difficult Times Bring out Good, Bad, Ugly Bahavior, Rebecca Hastings, www.shrm.org, 2/9/2009)

Cute title aside, the symptoms are:
- Trouble concentrating on the job
- Irritability toward fellow workers
- Negative attitude toward work
- Absenteeism
- Feelings of mistrust, among others

In other words, employees begin to focus on themselves and not the task at hand. This lack of focus can keep them from weathering economic trouble, and can cause some of your best people to seek greener pastures. Today we are going to examine some leadership strategies to that will help keep employees motivated, your organization’s vision intact, and prevent the temptation of unethical behavior.

I don’t claim to be an expert on ethics. In the end, I am in the same boat as everyone else: I am only as good as my next decision. My professional background has been varied. In the early part of this decade I was an Army officer serving for over four years in a Patriot Missile Brigade ready to go anywhere in the world with 72 hours
notice. Later I served as an operations officer in the Iraq war. Now, as a financial consultant for Concannon Wealth Management in Bethlehem, I help clients navigate the risks to their nest eggs, 401(k)s, and pensions. Both have been rewarding experiences, but one of the great values in these roles has been the ability to learn lessons on managing in crisis.

As I started doing research for today, I was looking for some recent examples of ethical and unethical behavior and the night I started taking notes I was watching the news and learned how to pronounce ‘Blagojevich’. Then there was one alleged Ponzi scheme. Then there was another. Not only did I not have to look far, I couldn’t make this stuff up.

Many of the recent stories of ethics have been negative examples, but I would like to start and hopefully stay on a positive note. A few weeks ago we witnessed the dramatic landing of US Airways Flight 1549 in the Hudson River. The actions under pressure of the pilot, Chesley Sullenberger, revealed ethical training and values in place well before the crisis hit. Think of how he insisted on being the last one out of the plane, making sure that everyone on the manifest had been moved to safety before he exited the aircraft. An anecdote that came out last week took the story a little further though, again demonstrating the character of the pilot. According to KPCC in his hometown of Pasadena California, Capt. Sullenberger called his local library to tell them that a book he had checked out, one that was on interlibrary loan from Fresno State, was overdue and he would like an extension and waiver on the fine. You see, the book was in the cargo hold of the plane in the Hudson. The Fresno State library was so impressed with his accountability, they waived all fines and fees, and promised to replace the book with a marker in the front, dedicating the volume to Capt. Sullenberger. The topic of the book: Professional Ethics. In an interesting footnote, this story made it to the media through the Fresno Library system. I saw last week that the Code of Ethics of the American Library Association states that: We protect each library user's right to privacy and confidentiality with respect to information sought or received and resources consulted, borrowed, acquired or transmitted. So in the end, someone broke the librarian’s code of ethics to relay a story about the ethics of a pilot who had checked out a book about ethics and lost it in the course of saving 150 people in an ethical manner. It is enough to give you a headache.

So where do we stand now that a positive story about ethical behavior would stand out as Capt. Sullenberger’s has? The economic situation in our country has revealed cracks in the façade of many reputable people and organizations. In the case of the alleged Ponzi schemes, these are people who were given much trust within their communities. When the market collapsed they were caught in lies they could not escape. Their cases of selfish behavior and deception are extreme and can overshadow what is really the challenge to us in our day to day leadership roles. The chances are bound to be slim that an employee in your organization would be able to steal millions or billions of dollars over decades without being caught. The chances of an employee motivated to act in self-interest and look out for him or herself with all of the bad news around, is much more likely. Our businesses depend upon teams of individuals being able to work
together, united by common goals. Can self-interested behavior be a threat to the ethics of our organization? Yes, in the sense that teamwork can be disrupted, a company’s vision can be muddled, and working groups may dissolve into individuals seeking to protect their own jobs and interests. Think of the every man and woman for themselves mayhem that would have ensued on the wings of that aircraft in the Hudson had it not been for calm leadership by the US Airways crew.

In economics, there is a term for this spiral of self-interest and its effect on the whole. The ‘Paradox of Thrift’ is the phenomenon where in uncertain economic times, everyone begins to save at the same time. When all of that spending contracts, business activity slows, job losses accelerate, and the overall economy worsens. Even though each individual is acting in their best interests by saving money, it ends up hurting them as part of the community.

**Turbulent Times**

It has been said that sports do not build character, they reveal it, leadership in crisis is no different. Organizations today are not building ethical cultures because of the turmoil that surrounds them. Either the bones were in place before crisis hit, or they weren’t. If they were, and leaders were able to convey a consistent message throughout the organization, all involved are better prepared to face the predicaments inherent in a recession. When bad times come, are your employees prepared to respond to pressure the way you would want them to, or are they left to their own devices. Ethics under stress is really an exercise in leadership. The issues that arise in your business are going to be different from the person next to you. But everyone in this room is capable of building a core leadership team that is forward thinking and focused on the values of your business. A solidly ethical organization maintains this level of preparation because they recognize the risks inherent in running any business. You don’t prepare for the good times when tough decisions bear fewer risks, but for the challenging times when risks are abundant.

Left alone, our tightly knit culture can drift apart into self-interest as people seek to preserve their jobs, their income, and their level of influence. The presence of a strong leader can make a big difference. There is a great example from history in the case of Ernest Shackleton, famed Antarctic Explorer. Shackleton led several expeditions to the South Pole in the first decades of the 20th century. He was part of an adventurous culture that included many brave souls, but also many who were after personal glory and riches. They were rough, individualistic people who could be mutinous at times. The adventurers who signed up for expeditions to the corners of the globe knew they would be expected to live in conditions that would test their very being.

Sir Ernest took that to an extreme level when his crew of 28 men set out in the ship Endurance in 1914. Their goal was to make an unprecedented 1800 mile trek across Antarctica. Their hopes were dashed shortly into the voyage when the Endurance became hopelessly lodged in the shifting ice 1200 miles from the nearest civilization. Shackleton’s leadership sustained his men’s health and spirits as they camped on the
shifting ice within sight of their frozen ship for 10 months. After the ship sank, they spent several harrowing days on the open seas drifting in row boats before landing on an uninhabited place called Elephant Island. Knowing his men had little chance to survive long in a place so far away from provisions he set out in an open boat for 15 days to the nearest whaling station on South Georgia Island. Due to weather, the group had to land on the unoccupied side of the island and then trek over mountainous terrain for 36 hours to reach the whalers. Once there, Shackleton set out to arrange for the rescue of the rest of his crew. 3 attempts failed due to ice before he was finally able to pick up all of his men, alive back on Elephant Island. The whole ordeal had lasted 22 months.¹

The parallels between Shackleton’s Expedition and the modern business environment are surprisingly plentiful. Primarily, Shackleton had a core sense of values that helped him to assess and change his priorities as the situation required. He was not so bound to his mission of exploring the Pole that he lost any time in changing direction to save his men. He showed that it was equally important to be aggressive in action and patient when there was little to be gained by pushing harder. He kept his men informed of his thought process, prepared them well in advance for the most difficult decisions, and made them confident that he had the best interests of the group in mind. In the history of polar exploration there are a multitude of cases where the opposite was true and the results were fatal.

In business we are confronted with this situation in a less life threatening form. We know we have little time to lament that our growth prospects for 2009 may not be what they were just a few years ago. Forward thinking organizations will rigorously reassess where their strengths and weaknesses are, and how best to advance toward their long-term goals despite near term struggles. By doing so openly, we can communicate to our employees how the company’s core values apply in more than just the good times. If we do not communicate that our values are retained under stress, we run the risk of allowing that individualized, ethical drift. The net result will be inefficiency, employee defections, and a diminishing of the culture that we worked so hard to build. Our obligation as leaders is to survey the landscape adjust goals as necessary and ensure that our values remain intact whatever may come. As a side note, times like this will be fertile ground for junior leaders in the organization. For those who have not been exposed to decision making under pressure, mentorship can help them to learn valuable lessons in retaining their character and that of their teams.

The Evil of Expediency

Conviction that when business is good, it will go on forever, can lead to pitfalls of expediency. Complacency and the belief that accountability will come some other time, preferably far down the road, can lead to a blurring of ethical lines. Are your employees preparing for the inevitable challenge or are they convinced the good times will last forever?

The military has a unique position in the professional world because all of your preparation, even when times are good, is for the day when everything goes wrong. It is hard to forget, with the $5 haircut and camouflage uniforms, that at some point you may get a phone call to leave on short notice and do your job because something is not right in the world. There is no pretense that peacetime will be perpetual, only that preparations done in peacetime are what will save lives in war. Soldiers know full well that competency on a weapons system, tactics, and physical fitness are emphasized continuously on the training schedule because we never know when the drill will become real, only that it certainly will someday. This was the way I spent my first few years leading soldiers in a Patriot Missile Battery. As the executive officer of the Battery, I was responsible for making sure that 85 soldiers, their families, 3 dozen vehicles, and our headquarters were prepared to deploy anywhere in the world.

My soldiers and I learned the value of preparation when a training exercise turned very real and changed all of our lives. On September 10, 2001, the 11th Air Defense Artillery Brigade, my unit, had scheduled an Emergency Deployment Readiness Exercise. An EDRE, as it is called, is scheduled once a year and begins with a phone chain recalling all soldiers in the dead of night on a Sunday night. They are to bring their duffel bags packed as if they were leaving on deployment immediately. They have two hours to be ready and in formation. After that formation, the unit begins full preparation for 70 hours to be ready to load all vehicles, soldiers, and equipment onto planes for an unknown destination. The exercise ends just prior to the planes taking off. It was as real as preparation could get. On the morning of September 11th, 2001, we were on day two of preparation when the news came of the attacks on New York City and the Pentagon. The rest of that week set the tone for the following 15 months where leaders up and down the chain of command made sure soldiers were prepared when the call came.

A great ethical challenge a leader of soldiers faces is the report to their superiors about the combat readiness of their troops. Are the soldiers trained to execute their wartime mission? Are their vehicles and equipment in functional condition? Are they considered deployable, meaning vaccinated, drug tested, and even had their dental check-up? Are their families prepared for separation with the right support networks in place? Each week these reports are filed from junior sergeants all the way up to General Officers, and the credibility of each leader is put on the line. If reality is glossed over or reported incorrectly, everyone is at risk. The easy thing to do is to assume all of the details are squared away, the ethical choice is to confirm.

The trade-off that we are often presented with is this: short term pain to fix underlying problems, or wait to see if an emergency develops down the line. From a human resource perspective we see this problem come up in performance reviews. It can be easy to let subpar performance or even reviews as a whole fall far down the priority list in good times. But when difficult decisions need to be made and performance slips, means of accountability are in great demand. An organization that has made accountability part of its culture in good times will find its employees much more comfortable with expectations during crisis. If leaders assume that their problems will
not come to bear, or worse, think that they can pass them down to their successor, the organization could be in for trouble.

An example of this comes from one of our sister units in the Summer of 2001. A new captain took command of a battery and began some of the normal soldier readiness tasks, one of which was unit-wide drug testing. He had a staff sergeant who was responsible for making sure all 80 soldiers were recalled early in the morning, took the urinalysis and processed the results through the labs at Ft. Bliss. In his first unit wide test, no one tested positive for anything illegal, but this officer knew what the risks were to his soldiers. If they tested positive for drug use, they would be considered non-deployable, and if enough key soldiers were non-deployable the Battery would be unable to complete its mission. Fort Bliss, in El Paso, Texas sits across the Rio Grande from Juarez, Mexico, a city roughly the size of Philadelphia that had 1500 drug related murders in 2008 alone. Drugs were a big problem.

After observing the first test, the new captain had a bad feeling about the integrity of the process being used and thought it was worth investigating further. He went outside of the unit to bring in a leader from another battery to conduct a second test. This time the commander monitored the results and had his own sergeant in charge of the drug program tested as well. This time the results were different. 16 soldiers came up positive for illegal drugs, including the sergeant in charge. The battery was now NMC, non-mission capable because 20% of the soldiers were non-deployable. The captain’s choice was similar to one we have seen play out in many companies large and small recently. Leaders identify a problem and are faced with a decision. On one hand we can root out unethical behavior now, realize the consequences, and begin building for the future. Or we can turn a blind eye, hope we can weather the near term, and let the chips fall where they may.

In our life experiences we know that hard decisions are rarely rewarded immediately. In this captain’s case, his unit was non-deployable for months. He continued to train his soldiers, bring in young leaders to backfill those who were court martialed, and by the time he actually deployed to war in January of 2003, he had a group of soldiers prepared to provide missile defense for our troops on the ground. I still admire his ability to accept near term consequences, and embrace the long view.

As people who provide value to our organizations, we offer two very different contributions to the group as a whole. One is our individuality, our own professional development that comes from a variety of personal experience. The other is our role as multipliers of the culture we share with our coworkers. We carry the values and mission of the business into each of our work groups and teams. Employees may be exceptional in the fields of sales, administration, or operations. Their skills and personalities provide the variables that we need for our businesses to succeed. Regardless of those skills, though, the best organizations foster a common ground rooted in ethical behavior that does not distinguish between job functions. Some have an expressed policy on ethics, some incorporate it into a mission statement or other document. In times of crisis, these documents are not just pieces of paper, they are uniting themes that can guide behavior.
and provide a place for employees to make a connection between what is important to them as individuals and what is important to their company. In the best organizations, many common values can be found between the company and employee.

What can we do now to enhance the ethical environment where we work, despite all that is happening? First, we as leaders should step back and see that this time is no different. The specific circumstances, our own stations in life, and the nature of our business in the marketplace may be different, but there are common threads that prevail in every crisis.

1. Rediscovery of risk- No matter where we are in the business cycle, risk is always present, sometimes the risks come at us from an indirect route or from a new source, but they are there nonetheless. The financial industry has been the best example of how companies can become overexposed during years of great expansion, only to be caught in a downdraft once things inevitably turn. Investment banks who leveraged their balance sheets to exorbitant levels saw extreme profits in the first half of the decade. With real estate values backing increasingly creative debt instruments, a lot of people looked very smart as they reaped tremendous gain for themselves and their companies. Where we stand now, with some of the most aggressive of those companies no longer in existence as we once knew them, the strongest financial firms are those who seemed bland just a few years ago, but they are the ones who never lost sight of risk, and were not surprised by its rediscovery.

2. Timing is never right- The famed economist John Kenneth Galbraith said that there are two types of people who participate in euphorias. The first believes that some new condition has taken effect and what is working now will continue to work perpetually. The other type of person knows it will come to an end, but thinks they can get out before everyone else. Of course our job is to not be caught up in the euphoria and be grounded in the reality that at some point, probably at an inopportune time, things will slow down and we need to be prepared to lead. There is a difference between being prudent and being Chicken Little though. Walking around telling others that their bubble is going to burst won’t win you any friends. The best way to prepare your organization for decision making under pressure is to train junior leaders. Mentoring can help them to learn anecdotally how senior leaders dealt with previous crises. Passing along wisdom like this will create an increased awareness of the culture of the company, set expectations for performance, and build confidence. The less surprised and more confident the leadership of your company is, the more likely you will be to maintain your ethical culture among employees.

3. Leadership is at a premium- This is why the heads of corporations are in the unemployment line, this is why there is such desire for examples of leadership like Capt. Sullenberger. And it is why guys like Ernest Shackleton become popular 100 years after their death. People do not want to follow those who rode

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the wave to new heights during boom years and now are searching for a rudder. They want to follow those leaders who are not necessarily flashy, but have that unique ability to maintain a sense of values, perspective, and focus on the task at hand. An investor like Warren Buffett has been a prime example of an unflashy person who has taken good care of his clients. Buffett has said that “it takes 20 years to build a reputation, and five minutes to ruin it. If you think about that, you’ll do things differently.” I’ll talk some more about Buffett in a moment. The good news for companies of every size is that no one has cornered the market on leadership development. The talent is out there, waiting to learn your culture and your values. Leadership is the great multiplier of your corporate culture. As Horace, the Roman poet an stoic said: “Adversity has the effect of eliciting talents, which in prosperous circumstances would have laid dormant”

Ethical Organizations are expected to buck trends, and will many times stand out as much for what they are not doing as what they are doing. In her recent biography of Warren Buffett, The Snowball, Alice Schroeder describes in great detail the sense of responsibility the Oracle of Omaha has to his investors and his companies. His two rules of investing for others are as follows: Rule 1. Never lose money, Rule 2. Never forget Rule No. 1. That is a tough stance to take in an industry that is frequently caught up in mania. Think of the real estate bubble, the tech stock boom, junk bonds, the nifty-fifty. Buffett has been so successful because in large part he was able to focus first on his responsibility to shareholders and view the rest of the world with a patient and sometimes skeptical eye.

Schroeder relates the story of Warren Buffett’s appearance in Sun Valley, Idaho in July 1999. At an annual gathering of the biggest names in technology, media, and communication, Buffett was the keynote speaker on the last day of the conference. He stood in stark contrast to some of the other CEOs and influential people gathered in that year. Technology company executives who no-one had heard of a year prior were trumpeting their grand visions for the future of the internet and what that would mean for business. The stocks of these companies, Schroeder points out were trading at “infinite multiples of their non-existent earnings, while “real companies” that made real things had declined in value”. All of these executives were hoping to lure capital from some of the money managers seated in their audience. These money-managers are the ones responsible for people’s pensions and savings. All told they had a trillion dollars in capital, enough to pay the income tax of every individual in the United States, and were looking for new investment ideas. So the scene is set, a new way of doing things is established, the old way is out of favor, there are decisions to be made on behalf of many investors. And in walks Buffett.

Up to this point he has had a strict policy against owning technology stocks, and his performance in recent years was lagging far behind those who participated in the growth of the internet economy. To this room of technology chiefs he proceeded to explain why, historically, their companies were dramatically overvalued. The growth of the stock market had outstripped that of the economy. The desire for greater and greater

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return, Buffett called it greed, was the foundation for the wealth in the room. The average investor was expecting market returns of 13-22% per year while Buffett was figuring on 6%. For him, the internet was no different from many new technologies that had emerged throughout history: the railroad, automobile, airplanes, television. All of them had improved quality of life dramatically. Very few if any of them made money for investors over the long term. So he was really providing some bitter medicine to his audience in the form of historical perspective. Needless to say, the speech was not going well.

He closed with an oil prospecting analogy for the technology business. An oil prospector dies and arrives at the Pearly Gates. St. Peter says “you meet all the qualifications, but we have a problem: We keep all the oil prospectors in that pen over there and as you can see we are chock-full, there is no room. The prospector asked, “Do you mind if I say four words?” St. Peter said, “By all means…” The prospector cups his hands and yells “Oil discovered in Hell”. Of course all of the oil prospectors vacate the pen and head down. St. Peter nods and says, “Nice trick, no go make yourself comfortable there’s plenty of room” The prospector paused and replied, “No, I think I’ll go along with the rest of the boys, there might be some truth to that rumor after all.”

Such is the power of the masses and the influence of culture. Buffett was confident enough in his own sense of value and the values of his investors, that he was comfortable standing on the sidelines while others chased after the stock equivalents of “oil in Hell”. By doing so, he reinforced his status as a leader in his industry, he did the ethical thing by largely protecting his investors from substantial losses when the tech bubble burst.

Part of our quest to build and maintain ethical companies will involve being able to stand with the courage of our convictions while the world sometimes, seemingly, passes us by. Having employees and leadership who are committed to the vision of your company will help all involved to unite with purpose when negative forces pull one way or another.

This discussion today is largely an academic one. We are hoping to highlight some scenarios that would benefit you when you return to your workplace today. The problem with an academic exercise is that we look in the rear view mirror and have all the information available to us. It is certainly easier for us to review the actions of others in hindsight knowing what we know now. Our leaders should recognize, however, that ethical decisions are made under imperfect circumstances with less than perfect information. The things we need to know to make decisions: Who, What, When, Where, Why, and How? Are not always going to be there immediately and in fact may never come. But if we have built a foundation of consistent ethical values across all levels of employees, we have enabled everyone to make good decisions in the absence of perfect information. As we navigate the current economic environment leaders will be called upon to use their reserve of personal ethics and training to make the most of the knowledge they have and act decisively under pressure.
Through my experience in wartime preparation and now in the role of counseling clients through devastating economic times, I have witnessed how ethics are demonstrated, reinforced and sometimes abandoned during times of great stress. My only hope is that these wonderful opportunities to observe stress give way to long periods of unwavering prosperity for all of us. In the interim I would encourage you to seek out opportunities to reinforce ethical leadership principles, develop junior leaders, and reinforce your values and culture.