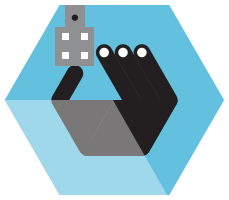

ETHICS

BUILDING AN *ethical* COMPANY

Create an organization that helps employees behave more honorably.

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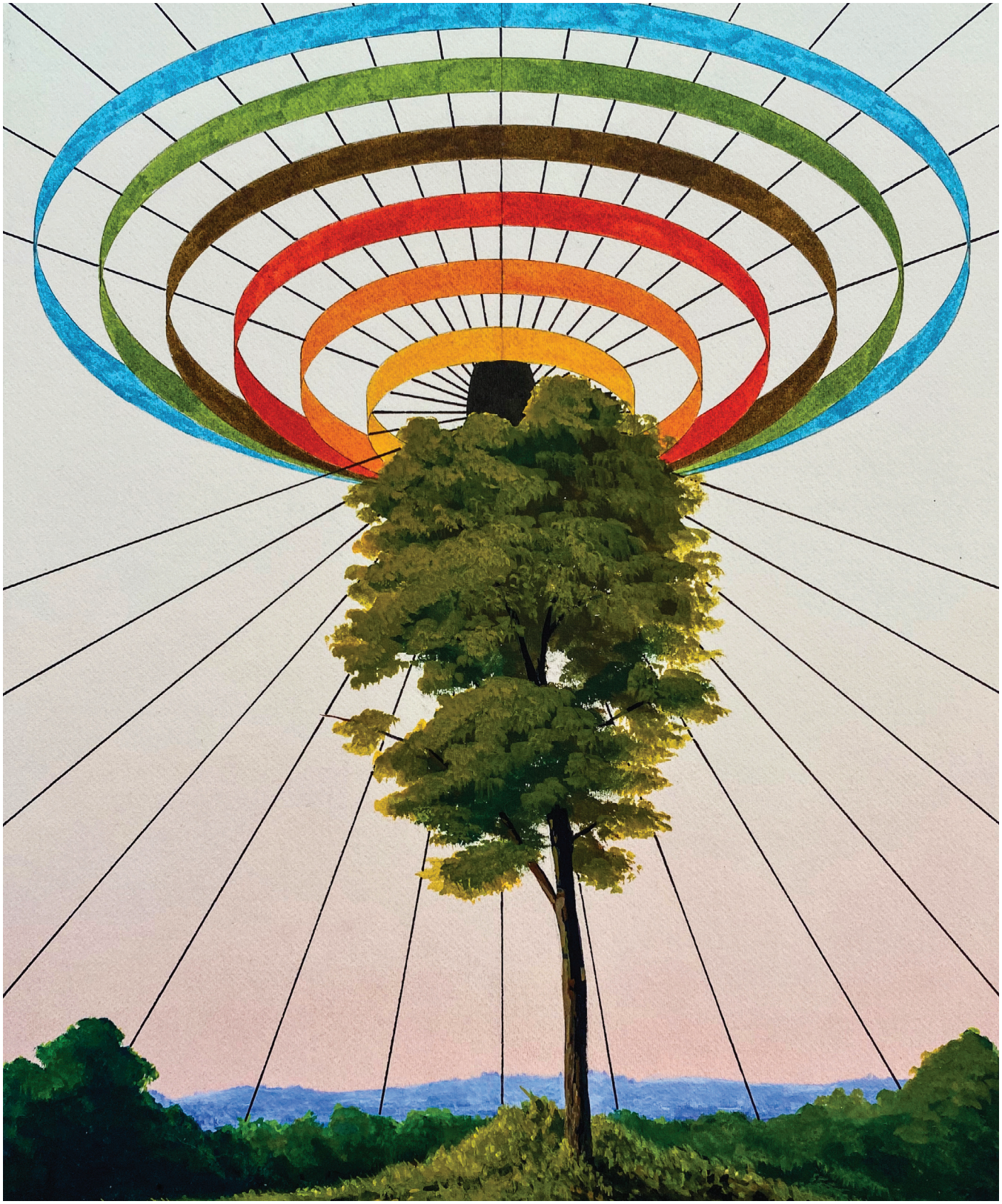

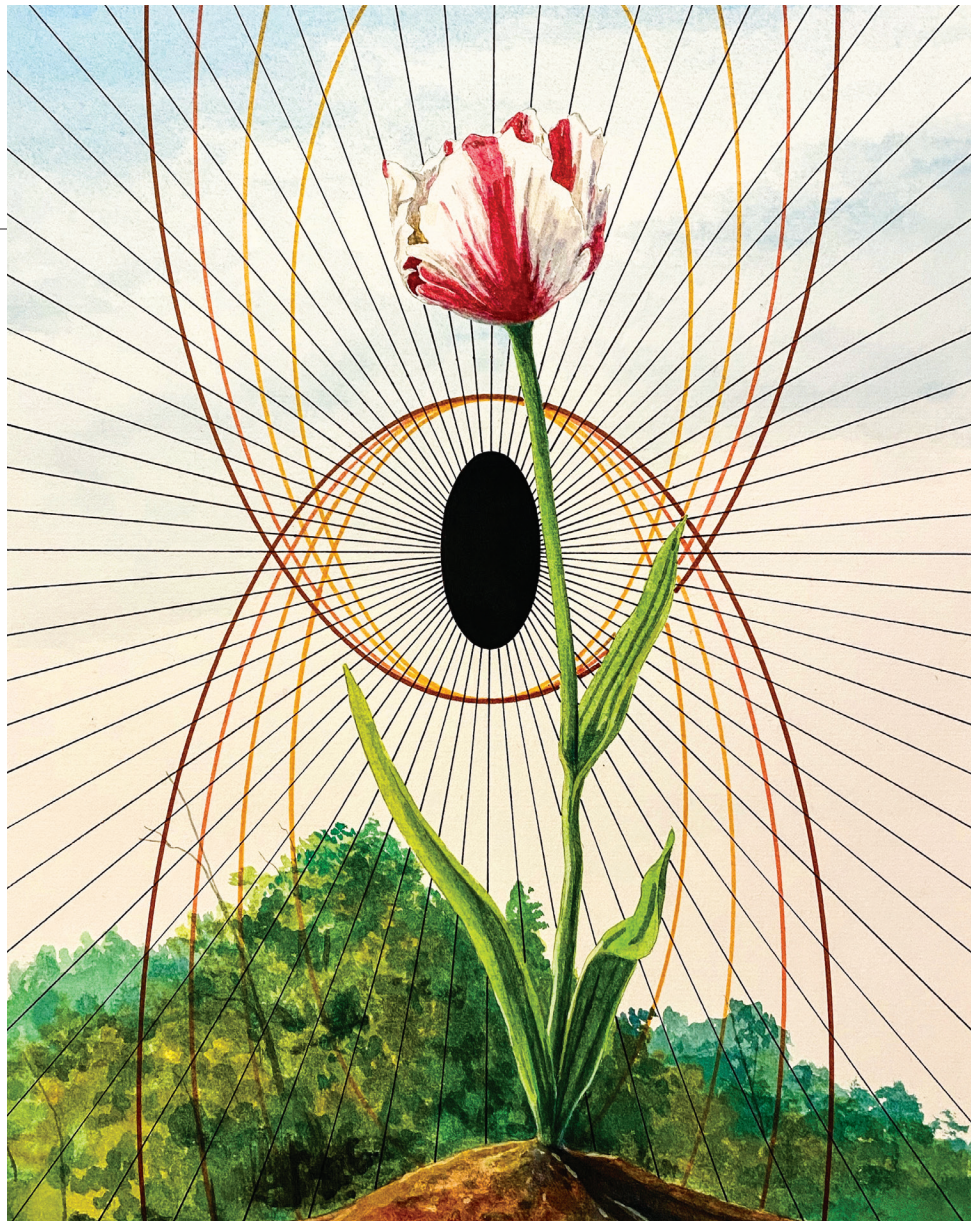

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IDEA IN BRIEF

THE OPPORTUNITY
Just as people entering the workforce can develop job-related skills and abilities over time, they can learn to be more ethical as well.

WHY IT'S OFTEN MISSED
Many organizations relegate ethics training to the onboarding process, perhaps also issuing codes of conduct and establishing whistle-blower hotlines. Such steps may curb specific unethical acts but don't necessarily help workers grow as moral people.

HOW TO CAPITALIZE ON IT
Managers can provide experiential training in ethical dilemmas, foster psychological safety when (minor) lapses occur, conduct pre- and post-mortems for initiatives with ethical components, and create a culture of service by encouraging volunteer work and mentoring in ethics.

People don't enter the workforce with a fixed moral character. Just as employees can nurture (or neglect) their skills and abilities over time, they can learn to be more or less ethical. Yet rather than take a long-term view of employees' moral development, many organizations treat ethics training as a onetime event, often limiting it to the onboarding process. If they do address ethics thereafter, it may be only by espousing codes of conduct or establishing whistleblower hotlines. Such steps may curb specific unethical actions, but they don't necessarily help employees develop as moral people.

Ethical learning doesn't happen by rote. Employers should foster an environment that encourages workers to become more ethical by practicing moral reflection.

Ethical learning is a lifelong process, and it doesn't happen by rote (do this, don't do that). Neuroscientific research suggests that when faced with moral quandaries, we fall back on prototypes, or mental models. Our moral evolution requires us to add to and update those prototypes as we gain experience. So in addition to preparing people for onetime moral challenges, employers should foster an environment that encourages them to become more ethical in the long run by practicing moral reflection.

The benefits of ethical organizations are well documented: Such organizations are more attractive than others to employees, are less likely to become embroiled in scandals, and are more likely to be rewarded by investors, who increasingly focus on good governance and strong cultures as sources of sustainable value creation. In a previous article, "Building an Ethical Career" (HBR, January–February 2020), we wrote about a bottom-up approach to ethics, describing how individuals could take ownership of their moral development at work. In this article we draw on evidence from hundreds of research studies in business, psychology, and ethics to present a top-down approach to helping workers build moral character. Together the two approaches highlight the workplace's potential to be a moral laboratory where people can find the opportunities and support to learn and grow.

RECOGNIZE THE ROLE OF WORK IN OUR LIVES

Some Protestant theologians hold that work is inherently edifying. We would not go that far, but we do agree with the idea that work is an effective place for ethical learning, for several reasons.

First, work plays a huge role in many people's lives. Houses of worship, therapists' offices, and conversations with close friends and family are traditionally where moral learning occurs. We're not suggesting that those settings are no longer relevant or important. But a typical full-time employee spends far more time at work than in a mosque, church, or counselor's office. Indeed, many of us spend the majority of our waking hours there. How could work not affect our moral thinking and actions?

Second, work and life are more tightly intertwined than ever before (a trend exacerbated by the pandemic). The boundaries between our personal and professional lives have become blurred. That has happened not only because we spend so much time at work but also because of a push, especially among Millennials and younger workers, for greater authenticity—a desire to "bring one's whole self to work." Activism on the job is on the rise, with employees banding together at companies including Facebook and Google to encourage leaders to address issues such as diversity, immigration, and political discourse.

Third, we are likely to face ethical situations at work that we might not encounter anywhere else. Will we bribe a government official to secure a lucrative contract? Will we pad our expense account or "cook the books?" Will we speak up if we witness a boss bullying or harassing a subordinate? And more recently, should we enforce mask wearing? Can our employees work from home? At our jobs we have regulations to follow, customers to serve, contracts to uphold, and communities to engage with. Experience with each can foster ethical learning over time.

How can employers help their employees use the workplace as a laboratory for character development? To answer that question, we'll start by examining the role that experience and reflection play in the evolution of moral character.

LET EXPERIENCE BE A TEACHER

The University of Washington's Scott Reynolds has described a model of ethical decision-making based on research into how the brain processes novel stimuli. According to his model, we all have certain prototypes in our minds that guide our moral judgments. When facing a morally relevant situation, we automatically—often unconsciously—engage in a pattern-seeking process, looking to match the situation with one of our prototypes. If we find a match, we make an intuitive judgment. We then use our more conscious, higher-order reasoning to justify that gut reaction.

When we face a moral decision for which we lack a prototype, our higher-order reasoning kicks in sooner, to

assess and resolve the situation. Our existing prototypes then undergo an updating process. The more experience we have with varied moral situations, the more opportunities we have to learn and to refine our prototypes.

However, many employees—especially those new to an industry or an organization or to work itself—lack experience with or training about the unique ethical issues that may arise on the job. Approaching the workplace as a moral laboratory, then, requires giving employees opportunities to learn from new experiences, both simulated and real. The goal is to help them build prototypes that they can apply to an array of circumstances.

One way to do this is through experiential training. Whereas traditional teaching is didactic (think of a textbook, or a teacher at a blackboard), experiential training is hands-on and immersive, with the teacher playing a guiding role. To learn the laws of buoyancy through experiential training, for example, one would build a boat rather than read Archimedes.

Despite its proven effectiveness in academia and in corporate training programs, experiential learning has been slow to catch on as a tool for organizational ethics and compliance training. When researchers examined the ethics training at 71 large U.S.-based companies, they found that much of it was delivered in short doses and infrequently, such as annually or only during new-hire orientations. And often the training was solely online or lecture-based.

What would an effective experiential-training program look like? Companies could regularly offer classroom-based programs using real-world case studies. At Lockheed Martin, employees watch videos of scenarios involving everyday ethical challenges they might encounter at work. Small groups discuss the scenarios and explore techniques for upholding moral values, such as asking questions, reframing issues to take various perspectives into account, and developing guidelines about when and how to report violations.

CREATE A SAFE PLACE FOR REFLECTION

To turn your organization into a moral laboratory, however, you must move beyond scenarios and simulations and let employees learn on the job. Reflection is key. As the philosopher John Kekes has written, "insufficient reflection leads to loss of self-control, ignorance of oneself, and to a failure to align one's ideals and moral vision." Management scholars have identified reflection as a critical capacity for developing ethical expertise at work. Drawing on psychological concepts such counterfactual thinking (envisioning alternatives to events that have already occurred), social comparisons (evaluating one's attitude, abilities, and traits in relation to others'), and mental simulation (projecting oneself into hypothetical realities), they have persuasively argued that employees cannot learn from experience without engaging in moral reflection.

Honestly contemplating one's actions can be an uncomfortable process. But a now-familiar management concept can help overcome resistance to doing so: psychological safety, or an environment in which people aren't afraid to speak up, ask questions, admit mistakes, and seek help. Organizational leaders can create psychological safety by framing workplace ethics as a learning process and acknowledging that we must learn from failures as well as successes. Managers can encourage employees to speak up when they witness moral indiscretions. They can reassure workers that it's OK to ask questions when facing moral uncertainties—preferably before making any consequential decisions. And they can model humility by acknowledging that they don't have all the answers.

Of course, psychological safety is not a green light allowing employees to make as many egregious mistakes as they want to. Clear violations of ethical standards should be handled promptly and punished consistently. Research shows that tolerating unethical behavior sends the wrong signal to employees and can spark further misdeeds. Having a psychologically safe environment for ethical learning doesn't mean granting deviants free rein; it means giving well-intentioned people a space where they can learn through reflection.

INSTITUTIONALIZE GROUP DISCUSSIONS ABOUT ETHICS

Research has identified three core features of systematic reflection that lead to learning. The first is self-explanation—a process in which learners analyze their behavior to understand what happened and why. The second is data verification, whereby learners think through multiple interpretations of a given experience or experiences. The third is feedback, meaning both reactions to past performance and recommendations for future improvement.

To maximize learning, managers can make ethics an explicit part of postmortem meetings, also known as

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after-action reviews. They might ask: Did the process and outcomes of this project align with our values and code of conduct? Did we cross any ethical lines? Were any stakeholders unduly harmed? Reflecting on such questions can help seasoned members of the organization evaluate their current practices and decisions and help new members learn from their more experienced colleagues.

Postmortems can also be helpful in situations involving ethical dilemmas: instances in which right and wrong are not clearly defined. Sometimes employees must do something uncomfortable—lay off an underperforming worker who has a sick child, for instance, or cancel a contract with a longtime supplier after a more attractive option comes along. They may face quandaries when asked to balance the legitimate but competing interests of employees, shareholders, suppliers, and customers. In such situations, discussing how and why they reached their decisions can add nuance and wisdom to their ethical worldviews.

CONDUCT ETHICAL PREMORTEMS

Companies can also institutionalize a preemptive type of moral reflection—what the psychologist Gary Klein calls a premortem (see "Performing a Project Premortem," HBR, September 2007). Key decision-makers meet before a project to think through ways in which it could lead to ethical lapses. Consider the experience of a young strategy consultant working in-house for a large health care system. During his first year on the job he identified an opportunity for the system to legally sell anonymized utilization data on a secure third-party marketplace. His colleagues commended him for the idea, but in keeping with the organization's standard practice, the key decision-makers held a two- to three-hour premortem to ensure that the proposed initiative was ethical and aligned with the organization's values.

At the start of the meeting, all participants were asked to identify their strategic goals around the initiative and to reflect on how their own agendas might bias their perspective. For example, those representing the organization's financial interests might be motivated to overlook any morally questionable aspects of the project if it appeared that it would add significantly to the bottom line. The participants were then told to set aside those goals and biases as the group discussed the moral implications of the initiative and its impact on all stakeholders. To the surprise of the freshly minted strategy consultant, by the end of the meeting participants had determined that although selling such data was legal, third parties might use it in ways that were inconsistent with the health care system's values. The group decided not to move ahead.

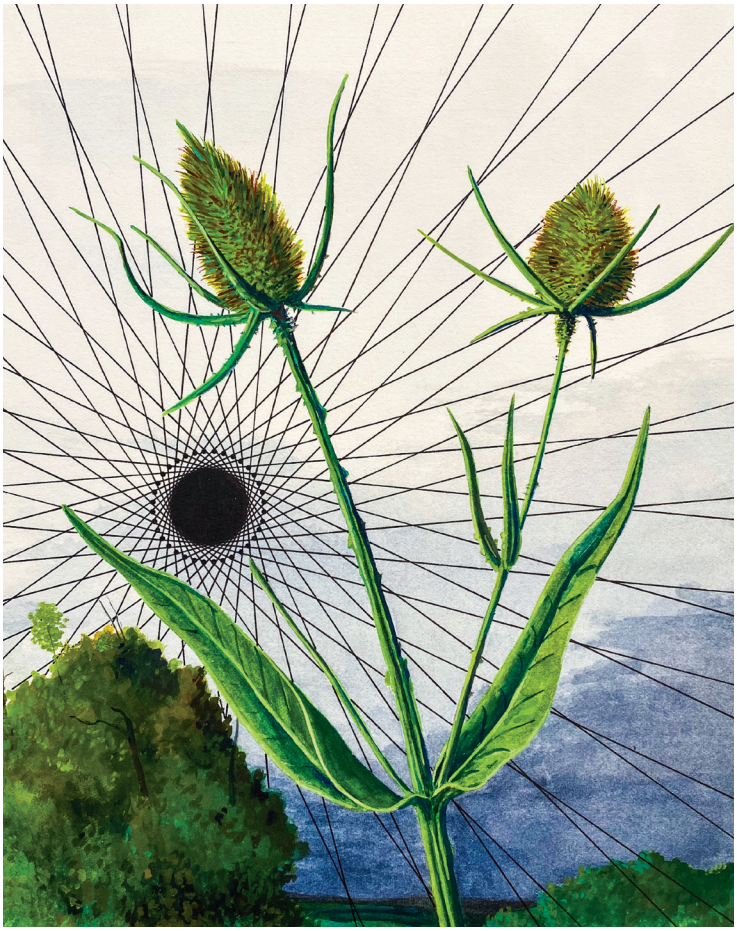
The premortem allowed the young consultant to participate in ethical learning: He acknowledged his potential biases, heard others' points of view, and reflected on moral considerations that he had not accounted for in his strategic model. By following a formal process of moral reflection, leaders of the health care system try to ensure that its employees and contractors always uphold the organization's stated values.

FOCUS ON SERVING OTHERS

Building a truly ethical culture involves more than just helping people to avoid doing bad things; it also requires empowering them to do good things. Research has shown that serving other people can reduce self-focus and raise awareness of moral concerns. It also contributes to psychological flourishing; studies have demonstrated a link between volunteer service and improved mood and well-being.

Universities often provide students with service-learning opportunities, such as consulting projects with nonprofit organizations, to help them gain practical skills while making a positive difference in the world and, it is hoped, becoming committed to service along the way. Research finds that such programs have a spillover effect on moral character. In one study undergraduate students who participated in a summer service-learning project outperformed their peers on a moral-reasoning assessment.

Companies can likewise provide opportunities to serve—something Salesforce has done since its founding, in 1999. Each year employees receive seven paid days off for volunteer work in their communities. They are also encouraged



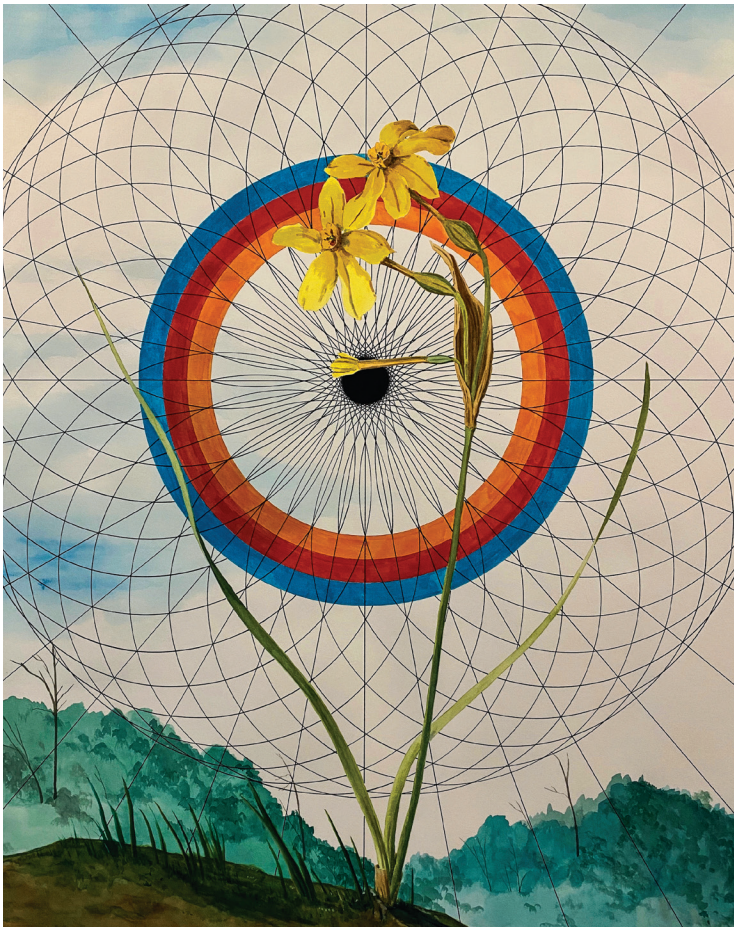
to offer their skills, free of charge, to help nonprofits better utilize cloud technologies. And they can apply for Salesforce Foundation grants to help organizations they care about. The company reports that since its inception, employees have donated more than 6 million hours of service. It encourages other companies to join it in pledging 1% of equity, time, products, and profits to deserving organizations, communities, and causes. Although corporate volunteerism is not a foolproof inoculation against scandal, it's probably no coincidence that of all the Silicon Valley tech giants, Salesforce has been one of the least tainted by scandal in recent years.

The Pay It Forward campaign at the Savings Bank of Walpole, in which teams of employees are given $700 to perform random acts of kindness in the community, is another good example. The teams then report back and share uplifting stories with their colleagues.

Another way of nudging employees to look outward—and keep their selfishness in check—is to help them see the positive social impact of their everyday work. The Wharton professor Adam Grant has shown that connecting employees with the beneficiaries of their work helps them see the positive impact they are having and increases what psychologists call prosocial motivation—a desire to expend effort to help others. Deere & Company has invited farmers to speak to assembly-line workers about the difference its equipment makes to their farms and families. The fine stationery manufacturer William Arthur has shown employees video testimonials by customers (often the owners of stationery boutiques) expressing gratitude for the reliability and quality of the firm's offerings and for how its products help people prepare for some of the most important days of their lives.

ENCOURAGE MENTORS TO ADDRESS ETHICS

Dozens of studies have demonstrated the positive effects of mentoring on employee outcomes such as job satisfaction,



promotions, and salaries. Yet we suspect that very few organizations explicitly incorporate ethical issues into their mentoring programs and relationships—a missed opportunity.

Formal and informal mentors alike should be encouraged to discuss ethics and moral character with their protégés. By developing strong, trusting relationships, mentors can bring their vast experience to bear on the ethical learning of others. They can ask questions, share experiences, and offer meaningful insights that help mentees reflect on their own actions. They can also encourage mentees to conduct postmortems, again in an atmosphere of psychological safety.

SOME BELIEVE THAT a competitive business context brings out the worst in people. We argue that with the right environment and support, workplace experiences can also bring out the best. Organizations can be designed to help workers learn and evolve into their most moral selves. And as we've discussed, explicitly focusing on employees' ethical growth might not only keep an organization out of the spotlight for scandals but also lead to rewards from investors.

Although we have presented practical suggestions for creating an environment conducive to ethical learning, our intention was not to write a definitive "how to" article but to spark a shift in mindset about character development in the workplace. Acknowledging that work can serve as a laboratory for lifelong ethical learning highlights the role an organization can play in helping employees become their best selves. Organizations may not be obliged to provide such help—but we think that the chance to do so is a very promising opportunity.

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