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Every ethical dilemma embodies three central questions: What is the optimal ethical outcome? Why should I want the best ethical outcome? Can I achieve the best outcome while preserving professional and personal relationships and, if so, how? Legislative, scholarly, and pedagogical responses to recent ethical and financial scandals involving companies like Enron, Worldcom, Tyco, Parmalat, and Ahold have focused almost exclusively on the first two questions, leaving the third unanswered. This article engages the third question by presenting a pedagogical tool for encouraging executives to personalize and operationalize business ethics.

Introduction

In addition to the information expressly required to be included in a statement or report, there shall be added such further material information, if any, as may be necessary to make the required statements, in the light of the circumstances under which they are made not misleading (Securities and Exchange Commission, 1965).

SEC Rule 12b-20 formalizes a longstanding principle of behavior in common law countries that it is ethically wrong to mislead people in ways that affect their decisions. In a more technical, legalistic sense, Rule 12b-20 says that if any statement or report filed with the SEC is misleading when prepared in compliance with detailed SEC regulations, which include Generally Accepted Accounting Principles (GAAP), then the reporting entity is obligated to provide whatever additional textual or numeric information is needed to ensure that the statement or report is "not misleading." While the essence of this rule has been a part of the common law ethical tradition for centuries, it was first formally included in the U.S. Code of Federal Regulations in 1965.

Now consider this e-mail exchange (*Wall Street Journal*, 2002) between two Andersen partners involved in the Enron audit:

> [David]—Setting aside the accounting, the idea of a venture entity managed by CFO is terrible from a business point of

> view. Conflicts of interest galore. Why would any director in his or her right mind ever approve such a scheme? Plus, even if all the accounting obstacles below are overcome, it's a related party, which means FAS 57 disclosures of all transactions. Would Enron want these transactions disclosed every year as related party transactions in their financial statements?—[Ben]
>
> [Ben]—I agree with all the points you and John raise except for two where I need some more help. But first, on your point (i.e., the whole thing is a bad idea). I really couldn't agree more. Rest assured that I have already communicated and it has been agreed to by [Enron Finance VP] Andy [Fastow] that CEO, General Counsel, and Board discussion and approval will be a requirement, on our part, for acceptance of a venture similar to what we have been discussing. Rick is insistent of such communication also. You should also know that none of this communication has yet to occur and this thing could get killed when it does. This thing is still very much in the brainstorming stage, but Andy wants to move through it very quickly to get all this done, if possible, this quarter. Andy is convinced that this is such a win-win that everyone will buy in. We'll see….
>
> If we can clear the hurdle of Enron not consolidating this venture, help me to defeat gain accounting on Enron transactions where approval of the transaction is controlled by the nonrelated owners and fairness opinions will be obtained for all. I'm not saying I'm in love with this either, but I'll need all the ammo I can get to take that issue on….
>
> I'm still working with him to figure out how exactly this will work and accomplish his objectives.
>
> —David

This electronic interchange occurred between May 28 and June 1, 1999, more than two years before the SEC announced its initial Enron inquiry. Close analysis reveals professional auditors who recognized that the CFO of a major client corporation was asking them to endorse a transaction that they were convinced was bad for the client's business and embodied serious ethical, if not legal, concerns. "Conflicts of interest galore. Why would any director in his or her right mind ever approve such a scheme?" Yet at that moment in time, despite his own conviction that the "scheme" was a bad one, the lead auditor appeared ready to go along if the CEO, General Counsel, and Board gave it their blessing. He had much to lose by violating SEC rules or by looking the other way while Enron's executives and directors did so. Yet, the record indicates in the end he could not bring himself to say in a convincing way, “SEC rules and my professional obligations to you and the public do not permit me to endorse this transaction or the proposed disclosure. Let’s find a better way.” Why not?

Catch-22

The personal, professional, and financial-market consequences of this and other similar failures to demonstrate timely ethical leadership are now legendary. Many such scenarios played themselves out during the same time period at a variety of companies around the globe. In virtually all of these cases, professionals and executives of various categories faced an apparent Catch-22: say “yes” and lose their professional souls, risking their professional standing and reputation; or, on the other hand, say “no” and thereby lose a key client relationship and thereby their income stream and professional standing. Faced with this dilemma, many executives follow the path of short-term least resistance and run with the crowd.

It is unlikely that the deluge of post-Enron regulation and enforcement will substantially change the reality or immediacy of this Catch-22. History suggests, despite the broad political support that drove the U.S. Congress to enact Sarbanes-Oxley, only the canonical location of the legal hotspot will change. Unless business executives and professional advisors find strategies to do the right thing, they will continue to behave unethically and violate the law.

Michael (2006) argues that regulatory and scholarly attention has been misdirected toward the substance of the rules and should be refocused toward ethical coping skills:

> To be ethical, our *intention* to do the ethical thing must be followed by our really *doing* it. Thus, individuals who…have recognized an ethical issue, decided on an ethical response, and resolved to act on it, still need to contend with pressures and other obstacles that interfere with actually implementing their decision. (p. 490)
>
> Ethics training cannot be limited to helping employees decide on the ethics of a situation, but, rather, must help employees to cope with those corporate dynamics that make doing the right thing difficult. (p. 496)

In other words, we have more than enough rules. It is time now to learn to live them. Bos concurs, noting that “rather than calling for strong values, it might be better to remind people of the skills that enable them to handle moral disagreement, contradiction and doubt” (Bos, 2002, p. 66). This article offers a simple descriptive-prescriptive written assignment, based on psychological influence theory elucidated primarily by Cialdini (2001) designed to instill in executive MBA and other business students the skills and confidence required to behave ethically despite potentially countervailing corporate dynamics.

The assignment requires three steps. First, the student writes a one- or two-page description of an actual workplace situation in which she or a co-worker was pressured to do something unethical. Next, she analyzes the interaction among the players in terms of Cialdini's influence framework. Finally, the student reexamines the situation through a prescriptive lens, mapping the influence landscape (Watkins, 2001) and suggesting how the player of interest could, in a future similar encounter, improve the ethical and relationship outcomes by using Cialdini's principles on key decision makers. Preservation of integrity is the paramount objective, but maintenance of the client or employment relationship is also highly desirable. Strategies that offer the possibility of preserving both integrity and the relationship may enhance the likelihood of ethical behavior.

The remainder of this article proceeds with a short overview of Cialdini's influence principles and presentation of an illustrative assignment including fact scenario, analysis, and prescriptive commentary.

Influence Principles

In this section of the article, I summarize Cialdini (2001) in six paragraphs, one for each of Cialdini's principles[1] of influence: reciprocity, commitment and consistency, social proof, liking, authority, and scarcity. The essence of the influence paradigm, which Cialdini documents with citations to empirical research and anecdotes, is that six fundamental psychological principles subconsciously guide people in their daily lives, leading them to respond in a quasi-mechanical fashion to specific external stimuli (Cialdini, 2001). In relation to each principle, known psychological stimuli activate what amount to hard-coded behavioral scripts that can be stopped only by significant, timely, and conscious effort (Cialdini, 2001). The six principles work as described in the following paragraphs. I describe each of the principles here positively, in terms of the conditions that lead to a "yes" response. However, conditions opposite to those described will similarly generate a "no" response.

The *reciprocity* principle states that A is more likely to say "yes" to B if B has previously delivered, solicited or unsolicited, some value to A (Cialdini, 2001). For this purpose, "value" includes tangible and intangible goods. Almost anything works: from a flower[2] to a small compliment, and from buying A lunch to sending A a greeting card that says simply "I like you."[3] Corollaries are that reciprocity often trumps other influence principles and that a small initial transfer of value often triggers a disproportionately large reciprocal transfer. Additionally, a concession in the form of a retreat from an unreasonable initial offer may serve as an initial transfer of value. The best defense against manipulative invocations of reciprocity is for the initial recipient to recognize the manipulation and therefore internally qualify the value transfer as deserving no reciprocal response (Cialdini, 2001).

Commitment and consistency rely on the universal human psychological craving for consistency in "words, beliefs, attitudes, and deeds" (Cialdini, 2001, p. 95). Consistency is partly an effort to streamline decision making (Cialdini, 2001).

Commitment is a closely related concept in the sense that it streamlines decision making in relation to a particular person or chosen course of action. Once A makes an initial small commitment to B, as in agreeing to accept a "free" night at a timeshare property, A is more likely to say "yes" to even larger requests made by B. Likewise, commitment to an erroneous course of action often leads to over commitment in which the subject "throws good money after bad" because of emotional attachment to the erroneous initial decision (Cialdini, 2001). Written and public manifestations of commitment (e.g., press conferences, signing formal agreements) strengthen commitment, in part, by enhancing accountability (Cialdini, 2001). Defenses to manipulative use of consistency and commitment include heeding "stomach signs" and "heart of heart signs," respectively, when (a) "we realize that we are being pushed by consistency or commitment" to do something that we know at a gut level is wrong or undesirable, or (b) it is not immediately clear, at a gut level, that the initial commitment is erroneous (Cialdini, 2001).

Social proof influences the subject to follow the crowd. The larger the crowd, the more powerful is the automatic impulse (Cialdini, 2001). Social proof works most effectively under conditions of ambiguity (when the requested course of actions is not clearly erroneous) and when the subject perceives members of the crowd to be similar to the subject (Cialdini, 2001). In other words, CPA partners at Firm XYZ who graduated from Kennesaw State University are more likely to follow the lead of other partners at Firm XYZ who are also KSU alumni than they are to follow Firm ABC partners or BYU alumni. Defenses to social proof include recognizing counterfeit evidence of (a) similarity and (b) what similar others are doing; remembering that social proof has a long history of leading people to do destructive things; and keeping mind that the majority can be wrong and even people who are intelligent and sincerely motivated can make bad choices (Cialdini, 2001).

The *liking* principle influences A to say "yes" to B when A knows and likes B (Cialdini 2001). Factors that tend to increase the liking quotient include B's perceived physical attractiveness, similarity to A, increased familiarity through repeated (usually positive) contact with A, and "liking by association" (Cialdini, 2001). Associative liking results from B's association, in A's mind, with people, things, or events that A perceives as positive or favorable (Cialdini, 2001). A's best defense to the *liking* principle is to mentally separate B from B's request and to evaluate the request on its objective merits (Cialdini, 2001).

The *authority* principle holds that people tend to automatically obey the orders or follow the lead of those whom they perceive to be authority figures, even to the extent of arbitrarily inflicting severe pain on others (Cialdini, 2001). Symbols of authority, including titles, clothing, and cars, can lead subjects to falsely conclude that the person in possession of the symbol is a legitimate authority to be followed or obeyed (Cialdini, 2001). Illegitimate authority figures sometimes attempt to create an aura of trustworthiness by freely disclosing minor negative information about themselves (Cialdini, 2001). Defenses to authority include carefully examining the evidence of authority status (valid credentials and genuine knowledge of the subject matter) and, assuming the evidence supports the formal claim of authority, examining the authority's motivations for making this request (is the authority acting in a self-interested or arbitrary fashion) (Cialdini, 2001).

According to the *scarcity* principle, people value more highly things, people, and freedoms that are scarce or unavailable (Cialdini, 2001). Additionally, we value more highly that which has become "newly scarce" than that which has been scarce for an extended period of time (Cialdini, 2001). Scarcity is directly related to psychological reactance theory, according to which we respond to the loss of liberties and associated goods by wanting them more than we did before their loss (Cialdini, 2001). This principle drives knowing employers to emphasize to new hires that their status is probationary for several weeks or months at the front end of an employment relationship. Employees who are let go during probation are less likely to sue for wrongful termination than those who perceive that they are no longer probationary.

Assignment Illustration

Fact Scenario

The following scenario, originally written by an executive MBA student, presents a multiparty situation in which many players at a vendor company collaborated on an important bid and then concocted an invoicing subterfuge whereby their company billed the customer for services that the customer did not want. Where necessary to preserve anonymity, I have altered identifying information. To enhance readability, I have changed some of the wording. However, I have left the account in first person to retain its immediacy and personality:

> A few years ago, when the growth of large e-commerce web sites was still a somewhat new phenomenon, our company was bidding to design and implement just such a website. This was the first large e-commerce implementation attempted by our company. The deal, if successful, would create a reference site and demonstrate our company's ability to deploy large-scale e-commerce solutions. Every major competitor was bidding on this solution. Winning this deal and successfully implementing it would provide an advantage in bidding on other major projects. After this deal was declared a "must win" by management, the account team felt they needed to do whatever was necessary to win the contract.
>
> The project included hardware, software, consulting services, and one year of support. The customer had been presented several draft proposals breaking down the cost by major category. They had not seen a detailed order form with specific part numbers and prices.
>
> During the negotiation, the customer stated a maximum cost amount that they were willing to pay for first-year support services. It was clear that the customer saw real value in our consulting services, but did not feel the same way about the first year of support. Our account team analyzed the customer's situation and thought otherwise. The account team was sure that our proposal

would not succeed unless the customer committed to a significantly higher investment in first-year support.

The sales team had worked hard to analyze the support requirements and thought they understood the customer's needs better than the customer did. The team was concerned that failing to deliver adequate support would prevent the e-commerce solution from working effectively. If the web site was not successful, our company's reputation could be damaged. Therefore, we decided that we would deliver adequate support even if the customer did not pay for it. Since we were going to deliver the support, our support team wanted additional revenue from the deal. In light of the customer's refusal to pay for more support, the account team had to come up with a creative way to fund the first-year support.

At this point, the sales team suggested that we "manufacture" consulting activities, which the customer perceived as valuable, and then bill the customer for these fake activities, internally recoding the resulting revenue from consulting services to first-year support. In this way, the project would succeed, the customer would be happy and the support team would get its revenue.

Descriptive Analysis

In this scenario, the writer was under pressure to participate in a scheme to fraudulently extract fees from a customer for support services that the customer did not wish to buy. We can see all six influence principles operating on the subject. Management viewed the contract and its associated benefits as scarce and therefore highly valuable. This drove management to label the deal a "must win," a statement that sales, account, consulting, and support teams are likely interpreted as direction from authority to win the contract no matter what the cost. Commitment and consistency worked on everyone involved to obey management as they had done in the past and to behave in a manner consistent with stock organizational values such as loyalty and teamwork. If commitment and consistency were not enough, reciprocity, liking, and scarcity were working overtime in different combinations on different individuals, driving them to play along with the scheme in hopes of receiving positive payback of one kind or another down the road. Consistency also required that the account team follow company norms ensuring sufficient first-year support for all such contracts. Once a few players, especially key opinion leaders (de facto authorities, with or without authoritative titles), have agreed to the plan, social proof will drive others to join the fraudulent enterprise.

Ethical Prescription

Let us call the subject Dana, a member of the account team. Under such circumstances, the pressure on Dana to just go along is almost overpowering.

Assume that Dana has decided that ethically the best outcomes are (a) to persuade the customer that first-year support is essential to the value of the contract and get the customer to agree to pay for it or, (b) failing customer agreement, to persuade Dana's corporate peers to either back out of the project or accept it without the first-year support feature. For this discussion, we should also assume that Dana feels sufficiently motivated to achieve outcome (a) or (b). She wants to behave ethically. As a last resort, she is prepared to resign from the company and find employment elsewhere. The only remaining question is how she should go about pushing the organization in the direction of (a) or (b).

First, timing is critical because as the plan develops and more people commit themselves to it, commitment, consistency, scarcity, and social proof will all work against any attempt to redirect the momentum. Here, a sailing metaphor applies. With relatively little effort early in the voyage, the skipper can effect a small course correction with outsized impact on the ultimate destination. However, the further into the voyage the correction is applied, the more effort and cost are required to get the ship back on track. Note, however, that ethical and nautical voyages differ in at least one important way. Errors in nautical navigation are usually soon forgotten unless the ship founders or sinks. In contrast, errors in corporate ethical navigation tend to have lasting consequences for companies and individuals in terms of ethics, law, morale, relationships, and reputation. Thus, the earlier in the process Dana begins her efforts to persuade, the greater her chances of success and the lower the costs.

Second, Dana needs to "map the influence landscape" (Watkins, 2001). In a complex, multiparty situation such as this, it is important to identify and evaluate each player in the drama before attempting to persuade anyone. Persuasion is accomplished by winning over individuals, not groups. However, as more key individuals join an endeavor, it will typically reach a tipping point (Gladwell, 2000) beyond which persuasion of additional individuals happens almost automatically through social proof making further conscious recruitment unnecessary. To achieve this result, it is most effective to persuade opinion leaders in the influence landscape (Watkins, 2001) first because once persuaded, they will persuade others and push the enterprise more quickly toward the tipping point.

In prioritizing her persuasion targets, Dana will also need to consider the status of her influence accounts, especially liking and reciprocity, with each target. Because of her relatively low position in the organizational hierarchy, she is unlikely to enjoy much in the way of authority. The softest targets will be those who like Dana and owe her a favor. She may want to find subtle ways to increase those balances before beginning to negotiate over the ethics question.

Assume that Dana identifies Bob, the account team leader, as her first persuasion target. She can further improve her odds with Bob by knowing the authoritative norms and standards of the company, Bob's team, and Bob personally. If Bob's personal ethics, company policy, or team practice require honesty and transparency, Dana can privately draw such norms to Bob's attention and give him the opportunity to reaffirm his commitment to them. In this context, it is important to keep in mind that voluntary commitments have greater influence power than involuntary ones. Thus, Dana should avoid using threats or other forms coercion at this stage. They may be necessary later, but not in the early going.

One approach to Bob might begin with Dana inviting Bob to lunch. At lunch, the dialogue might go something like this:

> Dana: Bob, I am really excited about the opportunity to bid on this web site. I want it to be a big success. I think we are headed in the right direction.
>
> Bob: I agree. It's a great opening for us.
>
> Dana: I was wondering. Are you comfortable with the sales team's proposal for dealing with the first-year support issue?
>
> Bob: Well, I'm not sure. What do you mean?
>
> Dana: Do you feel that the sales team's proposal is consistent with our company norms?
>
> Bob: Well, maybe not, but this is a special situation. Desperate times call for desperate measures. It should only be necessary this once. After this, future clients will be willing to pay full rates.
>
> Dana: I have always appreciated your leadership and example. In the long run, don't you think we will make more money and sleep better at night if we follow our company norms?
>
> Bob: You're probably right, but still . . .
>
> Dana: What about your personal norms? Don't you feel that this approach might violate them? I know they would violate mine. I don't think that any deal is more valuable than my reputation for integrity. I don't want to pressure you, but I would consider it a personal favor if you would agree to work with me on an alternative to the sales team's idea.
>
> Bob: Well, OK. What do you have in mind?

This upbeat approach makes a sincere attempt at addressing the underlying ethical concerns while preserving the relationship. Rather than focusing on authority or scarcity, as threats normally do, here Dana emphasizes liking and reciprocity. Under the circumstances, her positive, low key, complimentary attitude and her willingness to give Bob space to agree voluntarily serve as concessions, worthy of reciprocation. Dana's allusion to norms and standards, and possibly her own credibility, bring authority and commitment and consistency principles into action, but not in a heavy-handed way.

By clearly identifying herself as committed to ethical conduct, she may break the spell of social proof and drive it in the opposite direction, in essence flipping social proof in her favor. Bob can no longer believe that everybody is on board with the sales team's scheme. If Bob is listening, he will also realize that Dana, too, is committed to ethical action and that the opportunity to work with her is scarce because she will not wait around forever for him to get on board.

By asking Bob to verbally agree to craft an alternative Dana breaks his commitment, if any, to the sales team approach and commits him to work with her. This small commitment can be leveraged into a larger one down the road. Dana may want to solidify Bob's commitment by sending Bob an e-mail that memorializes the essence of their agreement in a nonlegalistic, nonthreatening way without reference to the fraudulent aspects of the sales team proposal.

Skeptics may be tempted to dismiss this approach as idealistic and impractical. Some may say that ordinary people in such circumstances cannot be expected to act so courageously. While I cannot, at present, offer empirical proof, I have successfully followed similar strategies repeatedly with clients, colleagues, and students over nearly 20 years as a CPA, attorney, and business professor. Sometimes, the subject has to find other employment and rupture some relationships, but just as often ethics and relationships are simultaneously preserved. I have seen this approach work many times.

From a pedagogical standpoint, as a corporate trainer and college professor, I have used this pedagogical tool with considerable success over a period of more than five years with hundreds of MBA and executive MBA students. Anecdotally, I am satisfied that it fills a pressing need in the business ethics curriculum and achieves the objectives for which it is designed.

Optional Steps

To further enhance the value of the assignment, the instructor may wish to (a) select one or two scenarios for classroom role plays, (b) assign individual teams to provide analysis and prescriptive commentary of selected scenarios, or (c) privately discuss scenarios with students.

Conclusion

The objective of this article was to outline a simple pedagogical tool to help instill in executive MBA and other business students the skills and confidence required to behave ethically despite potentially countervailing corporate dynamics. The tool just described achieves these objectives by (a) encouraging students to reflect on actual workplace situations of which they have personal knowledge, (b) providing an analytical persuasion framework through which students can evaluate the organizational and interpersonal dynamics present in such ethical situations and develop strategies for dealing with those dynamics in ways that preserve individual integrity and interpersonal relationships. Knowing something about how persuasion works can encourage otherwise reticent ethicists to take a stand when it matters most.

Notes

[1]Cialdini (2001) calls them "weapons of influence." I prefer the term "principles" because of its less confrontational tone.

[2]The flower ploy was used routinely as a fundraising tactic in airport lounges by a well-known religious sect, during the last quarter of the 20th century. Adherents would force a flower on an unsuspecting traveler who would then feel obligated to reciprocate with a monetary contribution. The donor would then toss the flower in the trash can, from which the adherent would retrieve it for imposition on his next target (Cialdini 2001).

[3]Cialdini (2001) discusses the greeting card example in the context of the liking principle but greeting cards also stimulate reciprocity.

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