



Industry Executives
Address Business Ethics Education

EXPECTATIONS OF BUSINESS AND SOCIETY FOR ETHICS EDUCATION

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The stock market run that peaked in 2000 put unprecedented pressure on corporate management to “meet expectations.” At the same time, Boards of Directors rewarded executives with stock options and bonus plans that seemed to align their interests with those of shareholders. Managing for the quarter and trying to hit increasingly unrealistic Street expectations put tremendous pressure on management. Added to this pressure was the potential for huge personal financial gain. Against this backdrop, it should come as no surprise that certain companies fell victim to employee lapses in judgment, unethical practices, and, in some instances, outright fraud. Market stakeholders such as accountants, lawyers, investment bankers, and analysts now are working to regain public trust. Government, plaintiffs’ counsel, pension funds, and shareholders’ rights groups have reacted in their own ways. So what does our future look like?

Nearly one-third of teens surveyed nationally believe you have to “bend the rules to succeed,” according to a Junior Achievement/Deloitte¹ & Touche USA LLP poll conducted by

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Harris Interactive.² Although this number is distressing, even more distressing is the fact that the fraction is up from one-fifth of responses from a similar poll conducted just one year earlier. According to a 2004 ABC News Primetime poll, more than seven in ten teenagers say students in their school cheat on tests, and almost as many say that cheating on homework is widespread.

With students telling us loudly and clearly, in increasing numbers, that they think we have to bend the rules to succeed, we have a serious problem. If we have learned anything about the scourge of corporate corruption over the past few years, it is that we must be involved actively—at all levels—in restoring public confidence in business. In our effort to bring integrity back to the boardrooms of today, we must look to the future. The capital market system rests on trust between parties. We must make it clear to students that bending the rules is unacceptable and that cheating will not be tolerated. The headlines they read about corporate corruption are error reports, not policy manuals.

We have an enormous stake in ensuring that students know right from wrong. They are, after all, the workforce of tomorrow. As businesspeople whose own hiring pipelines must be filled

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²The poll of 624 teens between the ages of 13 and 18 was conducted between July 9 and 23, 2004 as part of the “*Excellence through Ethics*” curriculum, a \$1 million initiative of Junior Achievement (JA) and Deloitte to promote business ethics among young people. The national poll had a margin of error of $\pm 3.9\%$.

with honest job candidates, we need to ask: How best do we impress on current and future employees the importance of ethical behavior?

Since the high-profile business failures attributed to fraud or to a breakdown in ethics, much has been written about business ethics, corporate governance, and social responsibility. The Sarbanes–Oxley Act, passed by Congress in response to these failures, is one of the most significant pieces of legislation ever impacting business. Shareholder losses that included retirement funds and pensions for widows and orphans were in the tens, if not hundreds, of billions of dollars. Job losses were in the tens of thousands. Legislation was, accordingly, far reaching and costly to business, but Congress determined that these abuses never would occur again. The cost of unethical behavior simply was too high.

Laws, regulations, and rules obviously are related to ethics; ethics goes well beyond them, however. We cannot separate these forms from ethics, but we never will have formal guidelines for every situation we face (at least we can hope not). We need ethics to help us with ambiguous, everyday challenges and to fill the huge gap between laws, regulations, and rules, and selfish, bad behavior. Corporate executives do not face a decision whether to break the law on any given day. But every day they do face difficult ethical decisions, ranging from communicating with employees, to negotiating with customers, to reporting to owners.

Enron brought focus to issues beyond existing law, for every example of corporate malfeasance entailed defying criminal laws, SEC regulations, or civil laws. Thus, although the new legislation has been helpful, history would suggest that something in addition to law is needed. A basic change in the way business is conducted and a shift in attitudes about what is acceptable must occur. Ethics education has never been more relevant or important.

Ethical behavior can change. After sobering stock market losses and job losses from failing companies, evaluations have addressed all facets of business behavior. Corporate governance is much more ethical than it was, not because people now are obeying the law, but because their attention to detail and their desire to do the right thing have improved. Audit committee meetings used to be given lip service and squeezed into board meeting breaks. Now they may last for days. Employees have been given whistle-blower procedures and, more important, protection. CEOs and CFOs want to be known for doing the right thing. Companies use reputation, governance, and ethics as competitive advantages. Management has a renewed sense of personal responsibility and accountability. And the consequences of *not* acting ethically outweigh alternatives.

Investors now approach companies with both a hammer and a carrot. Companies reporting misdeeds, demonstrating unethical behavior, or viewed as not “playing straight” in their financial reporting are punished with lower stock prices and/or shareholder initiatives to remove management or board members. Shareholders also may call for governance and compensation reforms. On the other hand, companies with good governance are rewarded with higher stock prices. A McKinsey & Co. 2002 Global Investor Opinion Survey indicated that the average premium on share prices that U.S. investors were willing to pay for good governance was 14%. Because large U.S. companies have market capitalization in excess of \$250 billion, this can be a significant value.

The attention being paid corporate governance and ethics is a good thing and has had noteworthy results in a rather brief period. Imagine the effect on corporate behavior if the entire

next generation of businesspeople understood the real expectations of business and society and had been trained to deal with difficult ethical situations.

The publicity generated by recent spectacular business failures has helped focus attention on a growing problem but also has reinforced misinformed beliefs that unethical behavior is the norm for business. In the Junior Achievement/Deloitte poll already mentioned, only 12% of respondents said “yes” when asked “Do you think business leaders of today are ethical?” A clear majority, 58%, said “no,” and 30% “didn’t know.” Bad behavior becomes self-perpetuating if most people believe it is standard operating procedure.

Ethics education is required to put the standards demonstrated by American business into a realistic context. There are more than 15,000 public companies in the United States, and only 20 to 30 have received all the press for ethical lapses. This impressively low rate of malfeasance needs to be communicated—not to minimize the problem but to demonstrate the inaccuracy of the perception that rules have to be bent or that most business leaders are unethical. Almost all companies had procedures in place to comply with the law even before Sarbanes–Oxley. Today, however, compliance is only the beginning, the bare minimum, and the law is substantially more onerous. Companies realize that the most important market expectation is trust.

Business entities must act ethically and must create an environment for ethical behavior. Businesses do not make ethical or unethical decisions, however—individuals do. Ethics education needs to focus on individuals because all decisions at the end of the day are theirs. Not only must businesses demand highly ethical behavior from employees, they must create a culture that prevents poor decisions and fosters good ones.

The ethics programs put in place by businesses are like “refresher” courses designed to reinforce what business students have learned. So the need for ethics education is tremendous. Because businesses are, in fact, seeking employees who have been educated about ethics, ethics education should become a baseline requirement of business majors and should meet several objectives:

- to provide students with a comprehensive background on the issue of ethics in business;
- to provide a process for identifying and resolving ethical dilemmas;
- to examine best practices in use today at leading companies; and
- to provide experience in dealing with ethical decisions through the use of case studies and scenarios.

These objectives could be met with a foundational class early in a student’s business education, after which ethics should be included in all business classes. By receiving an ethics education in every class, students would continue to learn that ethical behavior is [1] expected in all facets of business, [2] the norm in business, and [3] an individual responsibility. And students would continue to gain experience by working through additional scenarios. The embedded cultural approach is important because the intent to behave ethically must be second nature to an individual.

At the 2004 Teaching Business Ethics Conference, college professors discussed ethics education and presented impressive theories and approaches. The leading-edge ideas they articulated will improve ethics education significantly and, ultimately, the impact of business on society. Although such improvement is crucial, ethics education should not get too far ahead of itself. Understanding ethics or knowing right from wrong may not be very difficult, but acting on that knowledge can be. This concept is reinforced by the Junior Achievement/Deloitte poll.

Students were asked, “Do you think it is easy or difficult to be ethical/make ethical business decisions?” Fifty-six percent said it was difficult, and only eighteen percent said it would be easy. In most cases, these students and their predecessors who are now running businesses know right from wrong; they simply find it difficult at times to act correctly.

The foundational class outlined above is important in that it helps students establish a background in the literature and a process for resolving ethical dilemmas and provides them an opportunity to gain experience. Although this plan sounds easy and would not be expected to be controversial, ethics by its very nature is an emotional, subjective, and personal issue. Different conclusions may be reached in good faith by different people even when subscribing to the same set of basic values. Seemingly subtle differences introduced into the decision-making process—for example, difference arising from a person’s religious values—can become magnified under certain circumstances, as when the goal of treating employees fairly and ethically can be compromised by one’s view of sexual orientation. Decisions regarding business activities can be influenced by one’s political views on environmentalism.

An analysis of past ethical failures is important for a number of reasons. Beyond the obvious “lessons learned” that will come from such analyses, students should learn that ethics is not a new issue, that it is not limited to the United States, that individuals (not companies) made mistakes, and that consequences can be dramatic. This rather negative perspective should be balanced with examples of ethical successes. People tend to forget examples of good corporate behavior, such as Ross Perot’s corporate rescue of employees from an Iranian prison, or Johnson & Johnson’s pulling all Tylenol from the shelves after a few bottles had been tampered with.

A framework for resolving ethical issues is important in teaching students how to address difficult decisions. Ethical decisions usually involve minimizing or choosing between two or more adverse consequences. By their nature, ethical decisions are not easy. If they were, everyone always would do the right thing. Identifying appropriate values will assist in evaluating alternatives and balancing the personal impact (positive or negative) with the impact on group, society, or other individuals. Decision trees and checklists usually are ineffective in solving these types of problems. Instead, the decision making process should help the individual select appropriate values and assess their consequences. Consideration of the following questions might facilitate this process:

- Are my actions illegal or unethical?
- Am I being fair and honest?
- Would I be unwilling or embarrassed to tell my family, friends, or co-workers what I am doing?
- Would the reputation of the company be harmed if the action were revealed in the newspapers?
- Am I personally uncomfortable with the course of action?
- Could someone's life, health, safety, or reputation be endangered by my action?
- Could the intended action appear inappropriate to a third party?

Most difficult decisions become increasingly manageable with each additional person included in the decision making process. So long as the people consulted share a commitment to ethics and integrity, this is true of decisions regarding ethical dilemmas. According to the Junior Achievement/Deloitte survey, 83% of teenagers surveyed said that they turned to their friends first for ethical guidance. Friends may be well intentioned and offer earnest advice, but they also are likely part of the same population that admits to bending the rules. This survey finding points to the difficulties inherent in providing appropriate guidance for students.

Most companies have impressive codes of conduct and ethics. Some have inspiring slogans on the walls. But such strategies are motivating only if company culture supports them. One of the requirements of the Sarbanes–Oxley Act is that management evaluate the company’s internal control over financial reporting. The most widely accepted definition of *internal control* was developed by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). The COSO framework categorizes effective internal control into five interrelated components. The first component, universal to all other elements of internal control, is the control environment, which includes concepts such as tone at the top, attitude, awareness, competence, and style. Policies alone are not effective; executives must prove that they mean what they say, by instilling the appropriate control environment.

William Donaldson, Chairman of the Securities Exchange Commission, is charged with enforcing securities regulation and the Sarbanes–Oxley Act. In remarks at the National Press Club in July 2003, he commented that simply obeying the rules is insufficient and that the ultimate objective should be to make good behavior a part of a company’s “genetic material”:

Simply complying with the rules is not enough. They should, as I have said before, make this approach part of their companies’ DNA. For companies that take this approach, most of the major concerns about compliance disappear. Moreover, if companies view the new laws as opportunities—opportunities to improve internal controls, improve the performance of the board, and improve their public reporting—they will ultimately be better run, more transparent, and therefore more attractive to investors.

Much conversation about “tone at the top” has resulted from Sarbanes–Oxley. And agreement is widespread that top management needs to make clear that it is committed to strong governance, accurate information, and ethical behavior. But, in the words of the Chinese proverb, “Talk doesn’t cook rice.”

In a 2003 study of 1,503 companies, the Ethics Resource Center found a strong direct link between conduct and ethics-related action by top management. When talk dominated action, misconduct soared. But when top management walked the talk, misconduct plummeted.

In Companies Where Top Management	Percentage of Employees Who Observed Misconduct
only talks about ethics (All Talk)	56%
talks about ethics and displays some key ethical actions (Talk and Some Walk)	28%
talks about ethics and displays all key ethical actions (Walks the Talk)	15%

Companies that “get it” can affirmatively answer questions such as these:

- Is there a process for assessing ethics and compliance risks within the organization?
- Does the tone at the top, as communicated by senior management, let every employee know that ethics and corporate compliance are vital to continued business success?
- Does the code of ethics/conduct include a statement regarding obligations to employees, shareholders, suppliers, customers, and the community at large, and is it distributed to all relevant parties?
- Has the organization supported the ethics and compliance program through training, education, and communication?
- Is there a process to keep the board of directors informed of ethics and compliance issues, as well as the actions taken to address those issues?
- Is there an anonymous reporting mechanism or help line in place to encourage all employees to raise ethics and compliance issues without fear of retribution?
- Are there ongoing processes in place to monitor the effectiveness of the program and any compliance failures?

- Does the organization regularly and systematically scrutinize the causes of compliance failure and respond appropriately?

Most of us continue to learn throughout our careers. Our specific business or technical skills improve, and our values continue to be developed or reinforced. We encounter numerous difficult decisions and gain confidence with each successful resolution. In short, we learn from our mistakes, and practice makes us better whether in sport or in business.

By considering case studies and solving hypothetical ethical dilemmas, students have a chance to develop confidence in their own ethical decision-making processes and to learn from others with different values and processes. Students are able to gain valuable “experience” in a short period of time and without the consequences attending real decisions. Practice, practice, practice—the expectation of ethical behavior must become a pervasive part of the business education culture.

The state of the capital market system depends greatly on public trust and confidence. By taking steps to educate future business leaders in the importance of ethics, we are helping ensure that our businesses will have the strong leadership necessary to continue to set the standard in the world for years to come.

BUILDING ETHICAL DECISION-MAKING EXPERTISE IN BUSINESS AND THE PROFESSIONS

Lindsay Moore

Teaching Virtue

When Socrates famously questioned whether virtue could be taught, he could never have imagined our contemporary situation wherein, by law and social mandate, “virtue must be taught” across both public and private sectors.

Recent highly visible crises in organizational ethics have revealed shocking levels of individual and organizational misbehavior. The almost daily occurrence of scandal has led many to conclude that there is a perilous lack of individual and corporate character within U.S. society, and responses from Congress and various other institutions also suggest that ethical education is now of paramount importance.

In the United States, the best thinking about solutions to widespread misbehavior has been codified in the U.S. Sentencing Guidelines, the recent Sarbanes–Oxley legislation, the new ethical requirements of the public market exchanges, and the innumerable codes of conduct that have been installed within individual companies and organizations, all in an effort to distinguish right from wrong.

Fortunately, the legal and regulatory responses to widespread wrongdoing have been swift, and a vast experiment in ethical education has been launched. Businesses are training tens of thousands of employees in literally hundreds of different ethical subjects, while institutions of higher education are renewing their attention to teaching business ethics and the related topics of advanced education.

Societal Training in Ethics

Many of our most-revered and well-known businesses have been implicated in the recent business scandals, revealing an epidemic lack of individual and organizational character, a lack demanding broad social solutions. As accounts of widespread misconduct have emerged from the world of business, business has stepped forward and begun to police its own neighborhood. Simultaneously, higher education, recognizing a societal need, has responded with programs and courses designed to ensure that students and graduates are better prepared to face the ethical challenges of business and professional life. These combined responses constitute an organized social approach to ethical education that has not been undertaken within Western civilization before.

Current U.S. Sentencing Guidelines require training programs in ethics and regulatory compliance for all organizations convicted of white-collar crime violations. These same guidelines also encourage organizations to be proactive with such training programs, stipulating that organizations with programs in place prior to violations will receive lighter sentences if convicted of wrongdoing.

Such regulatory and ethical training programs are in effect within hundreds of domestic and multinational organizations, educating employees in their respective areas of risk and in the basics of such subjects as conflict of interest, sexual harassment, insider trading, protecting and handling confidential information, and antitrust violations.

These training programs assume that subject-specific training will enhance individual understanding and result in improved judgment and decision making in each individual's increasingly complex and specialized area of performance. The underlying premise is that programs will enhance the character of individuals, thus, too, their organizations and, ultimately, society.

The subject matter of ethics education programs helps us understand much of the cause of this widespread wrongdoing and why it has emerged so broadly. In many instances, individuals simply succumb to the temptation of wealth and knowingly violate the law. In many, if not most, other instances, however, individuals either do not realize that they are making an ethical choice or are unsure what is right or wrong under contemporary legislation and within a complex business situation or regulatory context. These latter individuals, who may otherwise be viewed as good and ethical persons, need only learn the appropriate laws, regulations, and conduct required under the circumstances. For the majority, it seems that clear information about context and issue-specific content will minimize misbehavior and illegal activity. For others, emphasizing the right course of action may deter undesirable or illegal action.

A partnership between the worlds of business and higher education, one that shares the challenges of correcting widespread wrongdoing, may improve the ethical character of individuals and organizations.

The Business Challenge: Developing Organizational Ethical Character

While many organizations are rising to the challenge and training employees in ethical issues, the problem of developing organizational character is one of the most difficult issues confronting the modern enterprise. Such development not only requires that organizational culture be influenced and corporate behavior changed as a result, but also involves building the character of employees.

Even when the senior leadership of an organization is committed to building organizational ethical character, results can be disappointing. This is especially true in very large organizations employing tens of thousands of individuals, located at multiple and diverse locations, and operating in different countries, cultures, and languages. Developing an ethical culture capable of producing what could be called “organizational character” requires, in such examples, a mix of ethical strategies, policies, programs, systems, and leadership directed at educating the minds and influencing the hearts of employees.

Across the world of business and large organizations, the strategy of the day consists of delivering online ethics-training programs to individual employees. A billion-dollar industry dedicated to compliance, regulatory, and ethics training has emerged over the last ten years. Businesses within this new compliance industry have developed innumerable training modules, available in many foreign languages, which fulfill the U.S. Sentencing Guidelines and the organizational character needs of the companies they service.

The most popular of these programs requires employees to study an interactive online training module on specific ethical subjects. At the end of each module, employees are tested for

understanding and ethical decision-making proficiency. Those who perform poorly on the training module are required to retake the module until they can pass certification testing. Individual scores are tabulated by a third-party training organization and reported to the Chief Compliance Officer or to the Ethics Officer of the employee's organization. The combined organizational scores are reported to the court, as required under U.S. Sentencing Guidelines, or documented for use in the event of a subsequent white-collar crime breach.

Content-specific training programs are considered highly successful and instrumental in generating ethical responses in professional contexts that can be too complex for either simple intuitive ethical judgments or for the broad ethical guidance provided students by the work of such thinkers as Kant or Mill. Such programs are of special value because an individual cannot make the right choice in a regulated business situation if he or she is not acquainted with the laws and regulations upon which right choice is predicated. For example, in an increasingly global business world, it is important to train the employees of international organizations in the Foreign Corrupt Practices Act if they are to be expected to conduct business within the limits of the law. Simply by following common U.S. business practices, many well-meaning individuals behave counter to this complex legislation. Under the Foreign Corrupt Practices Act, taking a potential foreign client to dinner can be seen as exercising a coercive, and illegal, influence upon business dealings.

The radical upsurge in unethical or illegal activity, coupled with increasingly expensive and severe penalties under the law, has driven the business world to accept responsibility for providing ongoing ethical education to employees in order to enhance their ability to engage in ethical action in daily business. Although training vast workforces is not an inexpensive proposition and often costs thousands of dollars per year per employee, such training can be far

less expensive than court-imposed monetary penalties and the incalculable costs of lost trust and damaged corporate reputation.

The trends of the last decade demonstrate that, from the highest levels of corporate governance to the shop floor, leaders see ethical character for their employees and organizations as essential to building and maintaining successful enterprises. As a result, business is increasingly battling white-collar crime by placing ethics at the center.

The Educational Challenge: Cultivation of Good Judgment

The present ethical crisis is a significant social problem requiring attention from many institutions. Business, government, regulatory agencies, and public markets are addressing the immediate problems rapidly, with laws, regulations, and employee-centered educational initiatives. Because character and the rightness or wrongness of actions is in question, and because building character is an important aspect of higher education, it is also natural that colleges and universities have stepped forward and assumed roles in ethical education.

While business is addressing the regulatory content and context-specific elements of business ethics, business is looking to higher education to prepare students to think more effectively, evidence good judgment, and make wise decisions when they enter the business world. To support continuing ethics-education programs, businesses need graduates who already have substantial experience in critical thinking, analysis, judgment, decision making, and the enhanced education in ethics that lays a broader intellectual foundation for the exercise of good judgment in daily affairs.

Cultivation of good judgment has long been implicit within the ideals of a liberal education and the advanced education of the respective professions. What business needs, therefore, is more of what higher education traditionally has provided its students to prepare them for professional pursuits, along with a renewed contemporary focus upon the issues and the style of reasoning suited to the complexity of the times. Because deficiencies in character are the focus, the balance of practical and liberal subject matters must be adjusted to focus more intently on the liberal side of the equation. With a revised emphasis, graduates could come to their new roles and responsibilities in the public and private sectors with enhanced awareness of the needs of business and society and be capable of approaching dilemmas with good judgment and a solid rationale.

Fine tuning the balance of practical and liberal subject matters in the business curriculum may seem to fly in the face of common wisdom, but the ethical crisis suggests the necessity of such a rebalancing. Learning to think, reason, and judge more soundly is the perfect complement to the present-day focus on the practical subject matter of modern careers. Graduates still need to learn, as before, accounting and finance, management and marketing, but the evident paucity of good character suggests that greater attention must be paid to both general business ethics and the ethics of the respective subject matters, such as the “ethics of finance” or the “ethics of marketing.” Such an approach will help produce more graduates who can think ethically on their feet and be counted on to evidence good sense across and beyond a particular discipline.

Critical thinking, good reasoning, and sound judgment are vital to good decision-making in business and society. These skills are the practical fruits of a higher education. They have intrinsic value because they allow us to rise to the diverse challenges of the day with wisdom and nobility. Even as business always wants more practical training for its prospective employees,

more than ever it needs graduates who are equipped with intelligence, wisdom, and the ability to learn. These attributes emerge from studying seemingly “nonpractical” subjects such as philosophy, literature, art, and history, which teach reasoning and understanding and generate the habits of mind that accompany virtue. If, indeed, universities are falling short of meeting the needs of business and society during its ethical crisis, it is in these areas of liberal education and in the overall balance of subject matter that fault may often be found.

The crisis in ethical education is a crisis about judgment and decision making. Because decisions are contingent upon accurate perception, clear thinking, and responsible analysis, higher education is uniquely positioned to affect the ethical situation by training the minds of students to a higher degree of competency in the faculties of good reasoning—good reasoning even when operating under the pressures of time and consequence. While ethical training in the modern workplace can fill in the gaps in individual knowledge regarding rules, regulations, and specific contexts, business is less adept at, and the workplace is less conducive to, teaching practical judgment broadly conceived. And without enhanced ability to exercise practical judgment, the graduates of today will be less able to lead rewarding professional and personal lives or to deliver enduring contributions to society.

Although higher education cannot provide what only time and experience can contribute to the development of character and judgment, it can make a significant contribution to the individual integrity of graduates by helping them develop the wisdom out of which personal character emerges. Today, the academy can provide a foundation essential to the continuing educational efforts of modern business.

TEACHING ETHICS LEADERSHIP

Francy Stewart Milner

Both public expectations of companies and standards for corporate performance are higher than ever after the corporate scandals of the last few years. Public companies must comply with an avalanche of new rules related to financial disclosure, accounting, and corporate governance; and private companies are beginning to consider the potential effects of these developments on their business.¹ As good corporate (and often global) citizens, corporations are expected not only to comply with these comprehensive laws and regulations, but also to excel in financial performance and to act responsibly, taking into account the interests of employees, customers, suppliers, and the community as well as shareholders. Only by meeting these social expectations can corporations begin to restore the public's trust in business.

In light of these challenges, business leaders must engage in holistic thinking and consider whether their business processes and systems ensure ethical behavior as well as solid

¹In a decision by the United States District Court for the Southern District of New York in *Pereira v. Cogan*, 2003 WS 2103997, directors and officers of Trace International Holdings, a privately held company, were held personally liable for breach of fiduciary duty, in an action by a bankruptcy trustee, for millions of dollars of losses suffered by Trace as a result of self-dealing, including loans and excessive compensation, by the majority stockholder, CEO, and Chairman. Officers and directors were held liable not for what they did, but for their poor corporate governance and inattention to business.

financial and operational results. The issue is no longer simply what a company has a right to do, but whether the course of action is the right thing to do.² Ethical and compliant behavior must be a top priority if the company is to achieve success over the long term, preserving its most precious asset—its reputation.

Clearly, the need for ethics leaders is greater today than ever before. How should companies and business schools educate leaders and future leaders to meet this need? As a starting point, ethics education should include the amendments to the Federal Sentencing Guidelines for Organizations, which mandate that senior management and boards of directors oversee an effective compliance system, one that will “promote an organizational culture” of ethics and compliance.³ Many companies now are scrambling to satisfy the amended guideline

²Dov L. Seidman, Chairman and Chief Executive Officer, LRN, stated in testimony before the United States Sentencing Commission on March 17, 2004, That “Most people believe that the scandals and failures of corporate responsibility were, at their core, not failures of legal compliance, but more profoundly and fundamentally failures to do the right thing. Companies and their leaders forgot the critical distinction pointed out by Justice Potter Stewart that there is a difference between doing that which you have a right to do and that which is right to do. In their pursuit of their dreams or schemes, people focused on what they legally can do and forgot what they should have done.” See <www.lrn.com/library/whitepapers/ussc_testimony.php>.

³Amendments to the Federal Sentencing Guidelines may be found at <<http://www.ussc.gov/2004guid/RFMay04.pdf>>. A company that meets the Federal Sentencing Guidelines criteria for an effective compliance program may avoid prosecution or receive a reduced sentence or fine in the event of a criminal violation. As a foundational piece in their ethics education, business leaders and future leaders should be aware of the Amended Federal Sentencing Guidelines requirements for an effective compliance and ethics program, which are as follows: [1] periodically assess the risk of criminal (and unethical) conduct; [2] assign overall responsibility for compliance and ethics to a senior officer, and daily responsibility to a person with adequate resources, appropriate authority and direct access to the board of directors; [3] communicate and train employees to understand and to act on compliance standards; [4] provide appropriate incentives to comply with laws and policies, as well as deterrents to misconduct; [5] conduct background checks on persons hired into positions of substantial authority; [6] provide channels for inquiry and reporting of misconduct; [7] respond appropriately to violations and

requirements. Business schools certainly can help these companies meet the challenge by supplying future managers and leaders who are well grounded in compliance and whose competencies include ethical decision-making, compliance risk management, and the leadership skills necessary to promote an ethical culture.⁴

Ethics Education for Current and Future Business Leaders: An Overview

Effective ethics education for business students and for managers necessarily requires a dual focus: personal and organizational. On a personal level, the leader (or future leader) must be able to identify legal, ethical, and social risks inherent in everyday business activities and must know how to manage these risks, making decisions that are morally, as well as operationally and financially, sound. On the organizational level, such skills are not enough; they must serve as the foundation for additional competencies. An ethics leader also must know how to build and to sustain an ethical culture, whether in his or her small team, department, business unit, or company as a whole, weaving ethics into all management decision-making processes and into the very fabric of the business. This daunting task requires a deep understanding of the business, as well as extraordinary communication, team building, and risk-management skills.

compliance failures; [8] ensure board oversight; and [9] periodically evaluate program effectiveness.

⁴Although media attention has been focused on the compliance and governance failures of boards and executives, recent studies have shown that it is younger employees and first-line supervisors with little tenure who are most at risk of feeling pressured to compromise company ethics standards to achieve success (*National Business Ethics Survey, 2003: How Employees View Ethics in Their Organizations*, Ethics Resource Center, Washington, D.C.).

The Leader's Skills in Exercising Personal Integrity

Among the foundational competencies essential to an ethics leader are the following: [1] an understanding of and a willingness to comply with laws, regulations, and company standards and values governing the business; [2] the ability to spot “red flags,” or indications of risk to ethics or compliance in any given business situation; and [3] the ability to use a framework to analyze the facts and to make sound, appropriate decisions, taking all relevant business, ethical, and social factors into account.

There are those who say that personal ethics cannot be taught. Nonetheless, other voices of experience recognize the potential influence of a leader or mentor.⁵ Additionally, many corporations have found that compliance and ethics awareness can be raised, and the abilities to identify and to address ethical issues sharpened, through training.

A basic understanding of the laws and regulations affecting a business, as well as the company's standards of conduct, can be achieved through various training methods, including classroom sessions, e-learning modules, and a blended approach. Although self-paced training materials such as e-learning modules may be most cost effective and provide the greatest consistency of messages and ease of delivery, “live” training allows for a genuine exchange of thoughts and ideas.

⁵According to Hank Paulson, Jr., Chairman and CEO of Goldman Sachs Group, Inc., although the best way to learn how to be a person of integrity is as a child, from your role models, “[t]hese values can be reinforced with one mentor or another. By the time you get to business school or into business, it’s a little bit more difficult if you don’t have some of the basic values or codes of conduct. But even there, I think [leaders] can make a difference and teach you” (Adrian Gostick and Dana Telford, 2003, *The Integrity Advantage*. Salt Lake City, UT: Gibbs Smith, Publisher, p.70).

Whatever the delivery method, training content should be relevant to the learner's job. Certain types of training, for example, in a company's code of conduct or in the law on harassment and discrimination, may be appropriate for all functions and levels. Other types of training, for example, on antitrust laws or the Foreign Corrupt Practices Act, should be targeted to specific audiences.

More challenging is the task of teaching risk management and ethical decision making. For this type of learning, workshops are especially useful. Leaders who are asked to study and to discuss real-world case scenarios tailored to their business and who identify compliance and ethics risks and engage in role play are more likely than others to transfer learning to the work environment.⁶ The more closely case scenarios track a participant's own experience with the dilemmas and pressures of the job, the more valuable the exercise.

If the first hurdle in ethical decision-making is awareness (understanding the rules and spotting the ethical issues in everyday situations), the second—and more challenging—is the ability to use a decision making framework incorporating ethical considerations. The Business Roundtable Institute for Corporate Ethics, a partnership between the Business Roundtable and leading faculty from top U.S. business schools, has identified as its most important ethics concern the establishment of a framework for business decision making that integrates ethics as the top priority.

⁶One example of such leadership ethics training is an exercise that was conducted for leaders at various levels at Coors Brewing Company in 2004. Participants were asked to study case scenarios that included risks to the accuracy of books and records of a brewery, identify "red flags" (ethical, legal or accounting issues), and determine what the characters should have done, using a "decision map" unique to Coors. The exercise led to discussion of potential risks to the integrity of books and records in the participants' business units and ways of mitigating them.

Ideally, training for leaders includes a common framework, or model, for ethical decision making. Students might be given various frameworks and asked to compare their utilities. Many companies have invented their own frameworks for ethical decision-making and have advocated use of the tool in communications. Such companies may be willing to share their tools, although proprietary, with others who seek to understand and to follow best practices.⁷

The Leader's Skills in Building Organizational Integrity

The leader who has mastered the art of personal integrity, including risk identification and ethical decision-making, must learn to lead an ethical organization. The skills he or she will need to lead, especially in a global environment, go far beyond those required to demonstrate personal integrity.

Although many other facets of organizational leadership might be discussed, the following competencies are perhaps most crucial to building and sustaining an ethical culture: [1] setting the “tone at the top” through two-way communication (enabling the flow of information “up the ladder” as well as delivering leadership messages “down the ladder”); [2] encouraging teamwork and overcoming functional and business unit silos; and [3] embedding deep into the business the same accountability for ethics and compliance as for financial and operational results.

⁷ Typically, a company's decision making tool will include several steps or questions to ask before acting, with reference to the company's common set of standards and resources for guidance.

“The Tone at the Top”

Ethics leadership requires role modeling—visible and active promotion of the highest standards of personal and corporate accountability. What does this mean in practice? First, it means following an ethical decision-making process in dealing with difficult problems; second, it means telling the story. The stories about actions that leadership took at challenging times for the business become part of “company folklore” (Markkula, 2001)⁸ and influence the behavior of others in the organization. Creating folklore about a values-driven company requires the leader who is personally ethical to be open about it. As pointed out in a recent article,

It is apparently difficult for an ethical person, especially one placed highly in an organization, to accept the need for making their private and internal ethical decision-making processes explicit and subject to review. These leaders find it difficult to accept that it is not enough to do the right thing – but they must go beyond – articulating how they determined what was right.⁹

Inherent in ethics leadership, then, are the communication skills that establish the “tone at the top.” The most effective ethics leaders are willing to tell personal stories about their own ethical dilemmas, to ask subordinates about the ethical impact of business decisions and proposed business activities, and to articulate the long view of business success past this quarter’s or this year’s earnings. These leaders regularly include ethics messages in business communications, such as messages to employees about meeting budgets and achieving earnings goals.

⁸Mr. Markkula’s words could apply equally to an established company whose leadership, through its actions in time of crisis, reinforces the company folklore. A case in point is the decision by Jim Burke, CEO of Johnson & Johnson during the Tylenol scare, to recall millions of bottles of Tylenol worldwide and be open with consumers about the situation, regardless of the potential costs, financial or legal, to Johnson & Johnson.

Although consistent and regular leadership messages are vital, effective communication is a two-way street. The true ethics leader must be certain that he or she receives key information about what is going on in the organization and that employees have a way to report misconduct “up the line” without fear of retaliation.

The importance of open channels of communication and of creating a safe environment for communicators can hardly be overstated. The Sarbanes–Oxley Act of 2002¹⁰ and the Amended Federal Sentencing Guidelines require reporting systems,¹¹ and the Business Roundtable Institute for Corporate Ethics has cited as a top corporate ethics priority “encouraging pushback and a culture for proactively addressing potential bad news early.”¹² These are lessons learned from fear of and delay in reporting illegal practices at companies such as Enron and WorldCom, where much damage already had been done by the time Sherron Watkins and Cynthia Cooper blew their respective whistles.

How do leaders encourage employees to ask questions early and to report illegal or unethical behavior? Studies have shown that employees do not report illegalities for two primary reasons: fear of retaliation and, even more commonly, the belief that nothing will be done about

¹⁰Section 301 of the Sarbanes–Oxley Act of 2002, Pub.L.No. 107–204, 116 Stat. 745, requires that audit committees of public companies establish procedures for receiving complaints and anonymous employee submissions about auditing and accounting matters.

¹¹Similarly, the Amended Federal Sentencing Guidelines require that “the organization take reasonable steps to have and publicize a system, which may include mechanisms that allow for anonymity or confidentiality, whereby the organization’s employees and agents may report or seek guidance regarding potential or actual criminal conduct without fear of retaliation.”

¹²“Business Roundtable Institute for Corporate Ethics Announces Key Findings from ‘Mapping the Terrain’ Survey of CEOs.” Press release at <www.businessroundtable.org/newsroom>.

them.¹³ The message for leaders is that they must establish trust in the internal system (the “folklore” of how whistleblowers are treated will be key here) and must promptly investigate all allegations and provide feedback to the reporting employee. Although help lines and ethics offices can be useful, especially in providing confidential, anonymous channels for inquiry or reporting, lower or midlevel managers often are a company’s first line of defense. These managers must create an open environment, making themselves available to listen to employee concerns and to act as coaches. Their leadership skills will help establish the trust that is the foundation of an ethical organization.

The Criticality of Cross-Functional, Cross Business-Unit Teamwork

One significant risk to an organizational culture of ethics and compliance is the existence of communication barriers between functions and business units. If business leaders do not consider how their decisions may affect those up and downstream and fail to communicate with others in the organization before making certain decisions, they put the company at risk. For example, a decision by a sales team to proceed with a promotion without giving advance notice to or consulting with the accounting or procurement group could lead to inaccuracies in the company’s books and records.

Leaders can be taught to recognize structural barriers to communication and overcome those organizational silos that pose a threat not only to compliance but also to business efficiency.

¹³According to the Ethics Resource Center *National Business Ethics Survey*, 2003, p. 43, the top reasons employees gave for not reporting misconduct were [1] the perception that no corrective action would be taken (70%) and [2] the fear that their reports would not be kept confidential (57%).

Some companies have approached the problem through training, using case scenarios in which failure to communicate is a warning signal or actually results in a violation of laws or regulations. Other companies have established an infrastructure of crossfunctional communication through ethics and compliance teams or councils including leaders from all business units as well as from the law department, internal audit, human resources, and other support functions. Business students can learn the essential skills of crossfunctional teamwork through case scenarios and role play as leaders in various industries.

Embedding Accountability for Ethics and Compliance into the Business

Although much has been said about integrating ethics into business,¹⁴ the devil is in the details. A common framework for making business decisions that takes into account ethical factors is certainly helpful. Equally important, however, is effective compliance and ethics risk-management throughout the enterprise, based on a common understanding among all line managers that they are as accountable for ethics and compliance in their teams, departments, and business units as they are for operational and financial results.¹⁵ Senior leaders should ensure that

¹⁴One definition of *effectiveness* in an ethics program is “the ability to put ethical principles into practice: to *integrate* the substance of ethics programs (e.g., codes, training) more seamlessly with the everyday work activities of employees at all levels” (See Joshua Joseph, 2001, “Integrating Ethics and Compliance Programs: Next Steps for Successful Implementation and Change.” Ethics Resource Center, p. 12).

¹⁵Although periodic risk assessment has been added to the criteria for an effective program under the Amended Federal Sentencing Guidelines, many companies are ill prepared to respond. James E. Bowers, formerly with the SEC and former vice president of corporate compliance at Aetna—now director of compliance risk services at the law firm of Day, Berry & Howard—has noted that many companies adopted codes of ethical or business conduct, appointed compliance or ethics officers, set up hotlines, and provided training have failed to achieve compliance risk management. “[W]hile efforts were made by senior management to voice an ethical tone at the

all managers are trained in and held accountable for assessment of compliance and ethics risks in their areas of responsibility.

There may be, in many companies, a corporate staff assigned primary responsibility for risk assessment and other aspects of a company's ethics and compliance program. But the program cannot be successful unless all managers and leaders see the "program," including risk assessment, as their business, too. The manager in each department, division, or geographic area is best equipped to help senior leaders and corporate staff members identify risks of criminal and noncriminal law violations and potential ethical harm from business practices. Thus managers should be trained to think broadly when looking for risk and to pay attention to warning signals such as inordinate performance pressure, incentives to engage in wrongdoing, internal control weaknesses, potential conflicts of interest, lack of understanding of laws or policies, and messages about business goals that stress the "what" but ignore the "how."

Communication and training on values and standards, another of the Amended Federal Sentencing Guidelines requirements, also may be driven by a central corporate function. But, again, managers have an important role to play in this area. Knowing the compliance and ethics risks in their areas, they can help guide the training curriculum for subordinates. Equally important, managers who demonstrate strong commitment to an ethical organization, set good examples, and have the communication skills to deliver ethics education to their employees can have far greater impact than a corporate trainer.

top, line managers were not required to 'own' and be accountable for managing compliance issues in the same way they were accountable for managing financial and operational issues." See James E. Bowers, "An Emerging Approach for Structuring Compliance, Ethics Programs," at <www.complianceweek.org>.

Although senior leadership commonly is thought to establish the “tone at the top,” it is the team leader or first-line manager who may be most effective in communicating leadership messages through direct engagement with employees. Moreover, the manager can blend compliance and ethics education into a regular staff meeting or business training meeting (for example, incorporating a discussion of illegal trade practices and antitrust laws into sales training). In many instances, however, managers simply do not have the skills and do not feel qualified to educate their subordinates on compliance, ethics, or ethical decision-making. Herein lies a great educational opportunity for businesses and business schools to “train the trainer.”

Leaders at a senior level in the organization retain responsibility for other requirements of the sentencing guidelines, such as providing oversight and ensuring periodic evaluation of the ethics and compliance program, including its training and reporting systems. Case studies can be a useful training tool to prepare senior leaders for these responsibilities. For example, an enlightening case study about Martin Marietta’s ethics program in the mid-1980s includes consideration of management’s search for a way to assess the effectiveness of the program and its concern about employees’ fear of retribution for reporting questionable behavior. Students asked to compare Martin Marietta’s program with that of another (or their own) company and to struggle with the continuing issues of program evaluation and employee fear of reporting will begin to understand the responsibilities they may one day assume as senior business leaders.

Summary

Today’s business leaders face growing challenges of increasing legislation and social expectations for responsible corporate performance. Ethics education for leaders is not a luxury

but a necessity, in both companies and business schools. The growing partnership between academic and corporate institutions, such as the Business Roundtable Institute for Corporate Ethics, holds much promise for the future of business ethics education. This partnership model could be adopted at the local level as well, offering additional businesses and business schools the opportunity to share learning and research on best practices in addressing challenging requirements for creating and sustaining an ethical culture: compliance risk assessment, ethics education (including e-learning and business cases), reporting systems, and program evaluation.

In sum, if it takes a village to raise a child, it will take the business and academic sectors of our society, working together locally and nationally, sharing ideas and best practices, to educate and to nurture business ethics leaders. The growth of such partnerships will surely move us all farther along on the path to restoring trust in business.

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THE NECESSITY FOR ALIGNING BRAND WITH CORPORATE ETHICS

Greg Owsley

“Awe shucks” marketing. In 1996, not long after I began working at New Belgium Brewing Company, we received an e-mail (quite novel at the time; It took three of us just to open it) from a disgruntled consumer with this definition of our homespun branding style. You see, our beers, with quirky names such as *Fat Tire Amber Ale* and *Blue Paddle Pilsener*, have labels based on watercolor paintings by the cofounders’ neighbor. Back then, our “advertising” budget was dedicated to trying to get everybody we knew in a t-shirt printed with our label art, and our marketing strategy was premised on the belief that we eventually could have a friendly beer with nearly every one of our loyal consumers. I really don’t remember our displeased customer’s full indictment, but we considered quite accurate his attempt to portray us as overtly naive. We grew our beer business more by empathetic intuition than by any formal marketing methodologies. And, at the time, before we even knew we should call it a brand, we felt lucky to have a strong relationship with our beers’ drinkers.

These days, as the fourth-largest U.S. craft beer brewer, New Belgium still is very much awed and humbled by our brand, that sublime connection we feel with our core consumers and (hopefully) they feel with us. While we do a lot less shoulder shrugging now, we’re still very

much students of what seems an increasingly complex world for the practice of branding. From my investigations into the New Belgium brand, I can only begin to imagine the challenges that business school professors have in preparing their students to venture into the new branding arena. The potential pitfalls and opportunities are ones that never could have been dreamed up by brand managers a decade ago. Beyond a growing need for ethics in advertising and promotion, even more fundamental deep rethinking seems required for the craft of branding. Although consumer suspicion of corporations is on fully raised eyebrow, those in good standing—as opposed to those trading on hype—are eyed increasingly with iconic-like adoration. From this odd polarization comes a new paradigm in which businesses that fully embrace citizenship in the community they serve can forge enduring bonds with customers. Meanwhile, these are precarious times for corporations that choose to ignore consumer's lifting the curtain on the brand front and peering in on company practices. More than ever before, what the brand says and what the company does must be synchronized. As the mandate for corporate social responsibility gains momentum beyond the courtroom to the far more powerful marketplace, any current and future manager of business must realize that corporate ethics are not so much about the installation of compliance codes and standards as they are about the spirit in which they are integrated. Thus, the modern-day brand steward—usually the most externally focused member of the corporate team—must prepare to be the internal champion of the bottom line necessity for ethical, values-driven company behavior.

I realize I may get some eye rolls with this challenge. Sure, I'm the marketing director of a regional company that has one of the hottest beer brands in the United States, but even with our *Fat Tire* we're not the biggest brewery in our home town of Fort Collins, Colorado. The local Budweiser facility produces in a week a quantity of beer that would take us a year to make and

sell. How could I possibly understand the high-level bureaucratic mastery it would require to make any kind of dent in the philosophical foundation of a large multinational with a potentially larger parent enterprise? I can't. What I do understand though, after two years of extensively researching the cultural position of the New Belgium brand, is that consumer expectations have been pushed to such extremes that all employees of a brand have at their disposal persuasive evidence that company behavior will not go unnoticed behind the brand façade. Additionally, I believe that making changes to a corporate conscience is not as David-facing-Goliath as it might seem. At the beginning and in the end, most business enterprises want to be noble, yet along the way humanitarian desires get buried under the demands for cost efficiencies and quarterly profits. Of course, it will be difficult for a firm to dig back down to those human-level obligations when it plays in the worldwide economy, but what should motivate the boardroom is that the decision to start shoveling can be driven financially. I can attest firsthand that a company can invest in social empathy above and below the surface and concurrently manage to be nicely profitable. In fact, New Belgium Brewing is just one noteworthy business model in which having a straightforward brand actually makes the company more financially sound. I humbly submit our blueprint for review by the brand architects of even the most global of corporate giants.

New Belgium's Values-Driven Brand

At New Belgium, a synergy of brand and values occurred naturally as a corporate ethical position—in the form of core values and beliefs—and was in place long before we had a marketing department. Back in early 1991, New Belgium was just a home-brewed business plan of Jeff Lebesch, an electrical engineer, and his social worker wife, Kim Jordan. Before they signed

any business paperwork, the two took a hike into Rocky Mountain National Park. Armed with only a pen, a notebook, and a jug of home brew, they took their first stab at what the fledgling company's core purpose would be. If they were going forward with this venture, what were their aspirations beyond profitability? What was the real root cause of their dream? What they wrote down that spring day, give or take a little wordsmithing, was the core values and beliefs you can read on our website today. More important, ask just about any New Belgium worker, and she or he can list for you many, if not all, these shared values and can inform you which are the most personally poignant. For us, branding strategies are as rooted in our company values as in other business practices.

As the brewing equipment moved from the basement of the cofounders' home to a recycled former railroad depot to an envy-of-the-craft facility, our sales have moved along as well, at a nice double-digit pace annually. Nonetheless, industry pundits question why we haven't allowed annual sales to be even nicer. After nearly 14 years in business, our company remains a regional brewer distributed in only 15 western states. Facility capacity, coupled with the strong desire to remain privately funded is cited as our main growth inhibitors. While we don't disagree, we also know there are more intrinsic forces managing our growth that is summed up in the codependency of our brand and our values. Kim has claimed from the beginning that a company with the core value of striving to "be an environmental steward" should make the utmost of sales close to home before burning up excessive (and expensive) fossil fuels to transport beers to cherry-picked, long-distance markets. Additionally, there's an obligation to quality that does not stop at the brewery dock doors. Beer is a perishable product that requires just as much monitoring in the market as it does in production. Thus we sell our beer only as far as we have quality-

assurance infrastructure in place. I won't kid you: we have not occasionally considered the lure of a quick infusion of cash from shipping beer off to unfamiliar territory. But there always has been something that feels wrong about going to a market where we don't have a brewery coworker stationed along with a hand-selected distributor willing to join us in delivering the best ale possible.

We're worried as much about the quality of each Fat Tire as about the quality of our connection to the communities we serve. We strive to deliver on our sense of civic obligation through charitable and fun community events we sponsor or produce, campaigns promoting the responsible enjoyment of beer, environmental sustainability outreach, and local philanthropic donations. We donate one dollar per barrel produced to philanthropic causes each year—a figure surpassing \$300,000 last year alone. Our company values and brand share the same greater purpose of bringing more to the cultural table than six-packs of good beer.

Customers repeatedly inform us that one compelling reason they purchase our brand is that our beers come from a good home. Sure, you can't send an invoice for good company-behavior, but no doubt it earns us extra sales. Our brand, like others that flow from companies exhibiting honest empathy, is one that people will go out of their way to support as well as pay a premium for. At our brewery guest-relations bar, we hear daily tales of consumers traveling great distances to buy our beer. We believe there is more to it than our delicious beer's being available only regionally: our company is also sincerely committed to the region.

Although our brand has a bloodline straight from our enterprise's ethical beliefs and practices, our work is not done. We must continually re-examine our manufacturing impact and resulting social and environmental responsibilities. In 2004, New Belgium received the

Environmental Protection Agency's regional Environmental Achievement Award. It was both an honor and a motivator not to rest on our naturally raised laurels. There are still many ways for us to behave better as a corporate citizen. We still don't produce an organic beer. Our manufacturing process is a fair distance from being zero waste or emission free. There will always be a need for more public dialogue on avoiding alcohol abuse. Practically speaking, we have a never-ending to-do list. We also must acknowledge that as our annual sales increase, so will the challenges for our brand to remain on a human scale and culturally authentic. How to boldly grow our brand while maintaining its humble feel has always been a head scratcher for us. Over the last few years, it's an itch we've really been feeling. The New Belgium brand team and I have been devoted to better understanding our brand and the story it authors for consumers. In the process, our discovery that brands are distinctly divided into either the good camp or the culpable camp has left us even more committed to strive continuously for brand and ethics alignment.

A Polarized Brand-World

Early into this research, we decided that everyone on the team needed to read *No Logo*, written by Naomi Klein in 2000. Klein forecasted in this trenchant book a consumer revolution that would call out brands and the companies lurking behind them and give them a good financial whipping. Although a credit-card cutting army isn't exactly bringing enterprises to their knees, the cynicism and skepticism towards brands which Klein demonstrates should have any current or future brand manager on full alert. No one can deny the expansive web of brands she describes. Nearly every nuance of our daily lives has a brand or two or thousand standing at the ready to assist us. Brands have reached such a level of ubiquity and intrusiveness that we might imagine

waking one morning to learn that “last night’s dream was brought to you in part by the manufacturers of” Klein points out that consumers are as much to blame as corporations for brand obesity. People continue to reward the ever-begging brand with ever-increasing profits. Yet many a consumer is showing signs of growing weary of brands always underfoot, attempting one trick-to-please after another. Klein claims that consumer unrest is smoldering. The homogenization of culture, aesthetics, and philosophy has, in addition to stifling the consumer’s life economically, fueled resentment of megacorporations. A collective sense of betrayal may not be widespread enough to gas up the next big political movement, yet it’s certainly not a feeling isolated to a handful of antiglobal brand activists. With a constant barking circus of lifestyle sponsorships, advertainments, branded content, cultural product placements, and guerilla, grassroots, and viral tactics, the marketer and his or her competitors are not the only ones who have had to become savvier. Years of fending off hyperbranding have left the general public with considerably sharpened consumer survival skills. Most consumers really have seen it all, and there are few secret formulas—hopefully none—left to the marketing executive. That’s not to suggest that spin doctoring and the art of artificing will ever go away. It seems there will always be just enough brand façading that consumers will have no choice but to remain guarded. But these days, when consumers do feel duped, they have the easy-access choice not to remain a faceless psychographic target. Far from being isolated, they have a web of their own and if disgruntled can send a stinging e-mail packed with the venom of a carbon copy to an entire electronic address book. Too, the very culture from which a brand feeds can turn and snap back at ill behavior. A brand that trades too heavily on its cultural clout runs the risk of a full screen expose of its motives. Just ask Ticketmaster about Pearl Jam, or McDonald’s about Morgan Spurlock’s *Super*

Size Me. Even at New Belgium Brewing, where we strive for a balanced role in the culture we serve, I'm not sure what I would do if I saw Michael Moore pull into our parking lot. While a world without logos seems a fantasy, no marketer can ignore the possibility of landing his or her brand products on somebody's *do not purchase* list.

Even when a company makes efforts to appear socially and environmentally benevolent, if those intentions are not viewed as sincere they can backfire on the brand, and management still will find itself trying to end a boycott. It seems wild that advertising claims of philanthropic and ecological do-gooding are often viewed with the highest level of suspicion. Recently, my 12-year-old daughter mentioned to a group of adults that she thought it was cool to buy stuff at The Body Shop because she knew they didn't do animal testing and that they supported environmental causes. When she finished, an adult friend of ours quietly asked her to research that belief a bit more. Later, my daughter and I snooped around on the Internet and discovered <www.mcspotlight.org>, with the following excerpt from London Greenpeace's leaflet entitled, "What's Wrong with the Body Shop?":

The Body Shop has successfully manufactured an image of being a caring company that is helping to protect the environment and indigenous peoples, and preventing the suffering of animals whilst selling "natural" products. But behind the green and cuddly image lies the reality—the Body Shop's operations, like those of all multinationals, have a detrimental effect on the environment and the world's poor. They do not help the plight of animals or indigenous peoples (and may be having a harmful effect), and their products are far from what they've cracked up to be. They have put themselves on a pedestal in order to exploit people's idealism.

Although my daughter and I didn't immediately go picket our local Body Shop, we were left with some question marks about its motives. I did explain to her that I felt the leaflet was holding The Body Shop accountable for all multinationals' power and greed, but in some respect

The Body Shop brought it upon itself by over pedaling its goodwill. I also told her that if she needed a bar of soap, she could still feel pretty good about buying it from The Body Shop. It was a company at least making some socially compassionate strides. For me, and I would think any brand manager, the lesson is that if you are going to incorporate charitable outreach into your brand communications, be absolutely certain you promote only as far as you have the company credibility to stand on. Industry's cultural and environmental obligations really are true to their name only when pursued neither as competitive advantages nor reactive public-relations buffering but as intrinsic desires of the company behind the brand. Ultimately, we should arrive at a point where consumers will not accept "social responsibility" or "ecofriendly" as unique selling propositions; they'll expect them as table stakes.

Perhaps the corporate communications that consumers would consider most sincere not only would claim your social and environmental accomplishments, but also admit your shortcomings. At New Belgium Brewing, the company we hold in the highest regard for its heroic efforts to balance the business agenda with social and environmental advocacy is Patagonia, Inc. This clothing and outdoor gear company has worked for more than 30 years to lessen its impact on the planet; at the same time, however, it readily confesses that its corrective efforts will never be completed: it will always be a manufacturer and will always place a certain burden on the environment. Founder Yvon Chouinard states forthrightly that "Patagonia will never be completely socially responsible." Yet this doesn't stop it from continuing to examine its processes and going to extraordinary lengths to minimize them where it can. A poignant example of this is how for many years Patagonia, operating under the assumption that of the four major fibers (cotton, wool, polyester, and nylon) cotton was the least ecologically detrimental, used "natural"

cotton in its products. Yet, after commissioning an extensive environmental survey, Patagonia learned that conventionally farmed cotton used 25% of all insecticides and 8% of all agricultural pesticides. Patagonia jumped into action not only by recognizing organic cotton as the solution, but by leading the charge to build a largely nonexistent organic cotton industry. Because Patagonia has ethical intent, a commitment to good business-practices naturally follows. In my research, I have found no other brand that exudes authenticity in this way. Patagonia treats its customers as equals and makes them privy to the inner workings and inner thinkings of the company.

I have first-hand evidence that the brand pay-off for Patagonia, Inc. is devoted, evangelistic customers, because I happen to be one. I'm so often outfitted head-to-toe in Patagonia that the joke around the brewery is that when I die they'll have to line my coffin in Capilene®. (On that note, I once offered a Patagonia representative a slogan for this revolutionary fabric: "still breathes even when you don't.") I'm generally suspect of the motives behind the majority of brands' social and environmental stewardship campaigns, but Patagonia and a few other companies have my undying support. I even admit to using these brands to bolster my self identity.

Crazy, isn't it? Just as the world is ripe for antibrand activism, the same dynamics create an environment where passion for brands can bubble over into giddy loyalty. I suppose that like any love/hate relationship its kindling is high emotional expectations. Consumers are so prepared for brands to reduce them inevitably to cash register rings that when the rare brand offers an authentic gesture, you can almost hear the consumer-brand wedding bells. Nothing's changed so much that brand success is not still dependent on tangible product benefits. Yet the most

compelling brands become more than abstract symbols or badges for stakeholders. They act as guides helping people navigate through everyday complexities.

For our New Belgium marketing team, the recent addition to our must-read list is *How Brands Become Icons: The Principles of Cultural Branding* (2004), by Douglas Holt, the L'Oreal Chair of Marketing at Oxford University. Dr. Holt directly pierces the widely believed immutable law of marketing that brands stay inflated when pumped full of positive abstract perceptions. Rather, Holt proves that great brands are built from tangible ground. I'm sure there are more forces at work, but as I peer at the global economy, the magnet I see pushing and pulling brands is the customer insistence for authenticity, or for brands to contribute real social and cultural value. Dr. Holt builds a substantiated case that iconic brands rely on myths, yet even the most fantastical myth relies on a foundation of authenticity. The authenticity may come from brand users themselves, but more often than not the creation of cultural value receives a degree of credible assistance from the company. In this era of marketing communications cacophony, here's the irony: all the noise becomes opportunity for the few brands that tell an authentic story that resonates in a social and cultural context.

As Dr. Holt pried my eyes open to see how certain branded enterprises rise to the top by serving an identity role in society, a role much more important than product benefits, I began to understand that the craft of brand construction comes with more responsibilities than the apparent building and fortifying of market share. Brands have the capabilities not only to reflect social values, but also to become beacons leading to new cultural beliefs. And if brands can muster the power to be cultural change agents, then those with a hand on the reigns must realize the moral obligation that comes with this awesome potency. I admit that the concept of brands as cultural

influencers in a community is not new. Anyone with a hand on the tethers must realize that the shadow a brand casts goes well beyond the far edge of its consumer base. Even at little awe-shucks New Belgium Brewing we get e-mails (that we now open with confident speed) beginning *I don't even drink your beer, but . . .* Neither do I mean to give the obligatory guilt slap about brands contributing to excessive materialism and stripping away from the intellectual and the spiritual. Figuring out whether shopping is the result of consumer nature or brand nurturing will not bring an end to our preoccupation with material things. But the proactive reality is that over-the-top consumerism potentially should drive corporate cultural responsibility. If the best a powerful brand, drawing its energy from cultural sources, can offer in return is a *special offer limited to our valued customers*, then the relationship scale is not balanced. Consumers will only continue to become more efficient, and rightfully so, at sniffing out and rejecting disingenuous promotions. It may be a precarious time for brands, but what consumers really want is not all that complex: they want brand loyalty to be a two-way street.

All good business-ethics curricula will stress the need for clear ethical thinking in advertising, promotion, and other branding decisions. My supplemental request, in these magnetic times for brands, is that future business leaders face the theoretical challenge now of fleshing out sincere methods of bringing compassion in the company to the branded forefront. The sign for me of a truly good marketing candidate is an informed eagerness to challenge the institution he or she is about to join to become better corporate citizens, because there will be both cultural and marketplace benefits to such change. Tomorrow's most successful brand manager will see her or his brand beyond its simple reflection of corporate reputation and in the holistic dimension, where

acts of branding in themselves have the potent ability to make genuine humanitarian contributions.

Awe shucks.