

A Question of Ethics

Does Corporate Corruption Work the Same Way as the “Boiling Frog” Metaphor?

“A long habit of not thinking a thing wrong gives it a superficial appearance of being right.”

—Thomas Paine
Revolutionary activist

Over the past five years, we've witnessed something of an ethics meltdown in corporate America. Much ink, blog space, and airtime have been devoted to divining how it all happened, much of which has boiled down to “bad apples” spoiling the whole bunch.”

Speaking of boiling, recent research by social scientists has introduced an intriguing perspective on how the spoiling spreads from “bad apples” to others in an organization. As it turns out, American corporate ethics may not have been traded in Faustian fashion, but rather insidiously simmered away, like boiling frogs. And the simmering occurs in the pot that is an organization's culture.

The Boiling Frog Metaphor

Legend says that if you drop a frog into boiling water, it will make every attempt to get out. If, however, you drop a frog into cool water, then warm it up slowly, the frog will not notice the incremental increases in temperature. It will not even notice that it is complicit in its own demise. It may be that corporate corruption works the same way.

It's comforting to think that the astounding ethics violations we've seen can be blamed on a few morally bankrupt individuals. The fact that they occur in large organizations equipped with systems designed to provide internal checks and balances, and are subject to legally mandated third-party oversight, should have mitigating effects. Since corruption is both large in scale and widespread, it appears the checks and balances aren't working to corral the “bad apples.” So what exactly is going on?



Karen B. Palmer, CPCU, CIC, is vice president and chief learning officer for Erie Insurance Group in Erie, PA. Palmer, a member of the Presque Isle, Pa Chapter, served on the CPCU Society's Board of Governors from 1996 to 1999, and has been a member of the Ethics Committee since 1999.

In a recent article published in the *Brooklyn Law Review*, Princeton psychology professor John Darley describes the nature and magnitude of corporate corruption as encompassing the following:

- It starts small.
- It is blatant—even “suicidally stupid.”
- It ends up involving numerous people whose time and effort are devoted to its preservation and growth.

Darley and other researchers propose that an organization becomes corrupt by means of a “slippery slope.” One small violation is sanctioned by the culture. When a violation of a greater power is introduced, it doesn't look so bad—it's not that much worse than the first violation—and so on. Next thing you know, the CEO is being led out of the building in handcuffs, and the frog (in this case representing the organization) has been boiled.

Boiling a Frog in Three Easy Steps

Step one: Go with your gut. Ideally, leaders make decisions by balancing what they “see” (using their perceptual systems) with what they “think” (using their rational powers) and “feel” (using their intuition). Darley posits that initial corrupt acts may result from decisions made on intuition alone, without the benefit of rational evaluation. Research demonstrates that strictly intuitive decisions tend to serve one's self-

interest. Without rational evaluation, a leader could make an unethical decision with neither malice nor forethought. Let's call this a “bad apple” act, the trigger that ignites the flame under the frog's pot.

Step two: Tacitly (or openly) sanction the violation. If “bad apple” acts, especially those committed at the leadership level, are not swiftly and loudly rejected by the culture, they will become standard. Several factors impact this standardization process, among them members' commitment to the organization and the organization's unwitting escalation of commitment to unethical acts.

For example, a CFO “pads” his travel expenses. The accountant who handles his expenses notices the padding, but because of her lower position in the hierarchy, does not report it. Others in the accountant's work group and chain of command notice the violations, and remain silent for fear that they are alone in seeing the padding as wrong. The silent parties then begin to question whether the act was really wrong in the first place in this context. Or perhaps they feel they must hide the original act out of loyalty to the organization.

Now the silent parties have become part of the problem. They may have to fudge financial statements to cover the original expense padding. They may have to lie to auditors. And it's entirely possible that the padding behavior will creep into other areas,

such as sales and profit reporting. Because it was not censored, unethical behavior has taken root and is flourishing. The water is beginning to heat up, and the frog is adjusting.

Step three: Rationalize. Another way to grow unethical behavior in an organization is for the actors to shift their perspective. For example, the CFO in the illustration above might see that padding his expenses has led to other corrupt acts. Does he go to the firm's accountants or CEO and admit to making a bad decision and tacitly allowing or requiring others to support it? Does he rationalize that he deserved the extra cash? What are the impacts on his silent co-conspirators? Do they now pad their expenses? What are they doing to "make peace" with their own unethical behavior? Why don't they realize that they're beginning to boil?

In a Harvard Business School report, researchers found:

- People are more likely to accept others' unethical behavior when ethical erosion occurs slowly rather than in one abrupt shift.
- Part of people's apparent willingness to accept unethical behavior by others stems from the fact that they do not notice it when it is introduced gradually.

As such, assuming an organization's culture demands ethical behavior, initial acts have to sneak in "under the radar." Christopher Meyers, of the Kegley Institute of Ethics, argues that culture plays a powerful and sometimes determinant role. It helps to define what the organization's genuine mission is, and what behaviors will be rewarded or criticized. From this perspective, one could argue that an organization's failure to nip the corrupt acts of "bad apples" in the bud is a failure of its culture.

Solving the Problem

Based on research, we know that an organization's most powerful insidious force is its culture. Perhaps this is the tool by which we can ensure ethical behavior. According to Social Justice Research, alternatives such as establishing codes and conducting training have proven to be short-lived and ineffective. The "slippery slope" perspective indicates that we can't reasonably expect to ward off all corrupt acts, and that we can expect them to become institutionalized if they are introduced into the system slowly. The boiling frog metaphor indicates that if we make them incongruent with an organization's culture, we can keep corruption from spreading.

Here is what the Markkula Center for Applied Ethics had to say about Enron's culture: "In some ways, the culture of Enron was the primary cause of the collapse. . . . When some of their business and trading ventures began to perform poorly, they tried to cover up their own failures."

Former SEC Chairman Richard Breeden had this to say about WorldCom: ". . . the corporate culture under [the CEO] did not reward efforts to reinforce legal compliance, ethics, internal controls, transparency, diversity, or individual responsibility. . . ."

Meyers states that the most powerful influence on an organization's culture comes from those who create and sustain the agenda—executives, directors, and managers. To use this influence to best advantage, there must be a clear and positive relationship between what managers say is of value and what they actually reinforce. It is also important to recognize that implicit and subtle processes most effectively establish and reinforce organizational culture. He states "explicit statements and policies have effective value only when they serve to express what is already present in behavior."

Instill a Cultural Thermometer

The Business-Higher Education Forum suggests applying quality strategies to managing ethical performance, including explicit objectives, proper incentives, periodic evaluations, and necessary support. These elements should result in explicit accountability for ethical performance. The Forum cites the importance of culture as a primary lesson of what it calls the "Enron Era," noting "with a function akin to an immune system, organizations with strong ethical cultures tend to self-correct from errant misbehavior and fortify against future encroachments."

In effect, then, a strong, ethical culture can act as a thermometer, a sort of early detection system providing an organization and its constituents with an environment in which corruption is not supported—one that easily and quickly detects unethical acts, includes mechanisms for reporting them, and reinforces continued monitoring and maintenance of ethical standards. Ideally, the culture should be such that an organization reacts to an ethical violation with the urgency of a frog jumping out of boiling water.

Note: *No frogs were harmed in the writing of this article.*

Editor's note: The opinions expressed in this column are those of the author and do not necessarily reflect the views of the CPCU Society membership, the Society's Ethics Committee, or the author's employer. In upcoming issues of CPCU News, the authorship of the "Question of Ethics" column will rotate among members of the Ethics Committee. If you have suggestions for upcoming articles or comments about the "Question of Ethics" column, please contact Sonya Marie Hope, CPCU, Ethics Committee chairman, at sonyah@iibweb.com.