

Organizational Ethics *Gone Wrong*

by Jonathan Bailey and Ted Thomas

Fat” Leonard Francis, owner of Glenn Defense Marine Asia and a good friend to the Navy leadership for over a decade, defrauded the U.S. Navy for \$35 million dollars. The investigation that followed implicated scores of Navy personnel, including admirals, in the corruption scandal. He bribed leaders and key personnel with money, prostitutes, expensive gifts, free vacations, and other things. In return for his “gifts,” he gained classified information about docking schedules and overcharged the Navy for his company’s services.¹ The remarkable fact about all of this is not that it happened, but that the corruption was so rampant and almost became part of the accepted culture of the 7th fleet.

With all of the fiscal oversight within government contracting and the organizational moral codes of the armed services, how could this happen? How could this many organizational leaders move from their ethical foundations and drift into unethical behavior, or even condone it by their inaction as they watched others participate in it? What causes an organization to drift from its espoused values to immoral and often criminal behaviors, and how can leaders prevent this from happening? The answers to these questions are important for organizational leaders to understand, and the answers carry significant moral and ethical implications for society.²

High profile leaders who fall from grace due to abuse of power, money, or sex issues get a lot of press—bad press. In many cases, others in the organization knew the leader was doing something

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unethical, but did nothing about it. This might be due to fear of losing their job or out of a sense of loyalty and respect for their leader. Another problem appears when widespread immoral, illegal, or unethical behavior becomes part of an organization's culture or how they function and solve problems. This happens for many reasons, and unethical leadership is only one. This paper examines ethics at the organizational level and looks at several theories to demonstrate how unethical cultures arise in organizations, how to recognize if there is an issue, and what to do about it.

The interaction of bad actors and bad environment make it difficult to determine what caused the unethical behavior.

Bad Barrel or Bad Apple?

When people discuss why unethical problems occur in organizations, they either blame the environment, a “bad barrel,” or the individuals involved, “bad apples.” Our discussion focuses on the bad barrel, or organizational problems that lead to bad behavior. The bad barrel or bad apple question produces a false dichotomy. Bad actors can produce a bad environment causing unethical behavior. However, a bad environment may encourage good people to misbehave and do bad things. The interaction of bad actors and bad environment make it difficult to determine what caused the unethical behavior.

Hitler provides an extreme, but prime, example of people accusing a bad apple of producing a bad barrel. Hitler is known as the bad apple who led his country into WWII and demonized the Jewish people, pursuing the “final solution” to exterminate them.³ The war can actually be traced back to the poor economic environment and restrictions imposed by the Treaty of Versailles on Germany after WWI, which produced a bad barrel. Without the

depression, rampant inflation, joblessness, and other social difficulties from the peace treaty imposed on Germany, would the bad apple of Adolph Hitler have ever been produced?⁴ The proverbial question of which came first, the chicken or the egg, is appropriate for this situation. Stanley Milgram and Philip Zimbardo, both college professors, performed experiments that reinforce the difficulty of separating the bad barrel from the bad apple.

A shocking (literally) set of experiments in the early 1960s showed the majority of men (65%) will follow the orders of a person in authority to shock someone—to death. Stanley Milgram, an innovative social psychologist and instructor at Yale, recruited male volunteers between 20 to 50 years old from a variety of professions. Based on the experiment parameters, volunteers believed they would be a “student” or “teacher” for the experiment. However, Milgram designed the experiment to assign all volunteers as teachers while one of Milgram’s colleagues would serve as the student. The volunteers, as teachers, were told to administer shocks to the learner for answering questions incorrectly as the experiment progressed. While the standard voltage in an outlet is 120 volts, the people in the survey administered “shocks” up to 450 volts, enough voltage to potentially kill or seriously injure the student. Milgram demonstrated how easy it is to convince ordinary people to obey an order that harms another individual. His experiment indicates that a leader can easily create a bad barrel, with over half of their followers willing to execute unethical orders.⁵ Accordingly, leaders possess unique abilities to affect the organization’s ethical stance, either negatively or positively.

Phillip Zimbardo, a Stanford professor, in his “Stanford Prison Experiment” found much the same results but without a leader imposed set of ethics. His goal was to determine if prison brutality stemmed from sadistic prison guards or if it stemmed from the prison environment.

He randomly assigned students the roles of prisoners or guards in a mock prison experiment due to last two full weeks. Within a matter of days, the guards became increasingly aggressive and assertive. As the experiment went on, they became more brutal and demanding, and started hazing the prisoners. Zimbardo disbanded the experiment after only six days due to the brutal, dehumanizing treatment of the guards towards the prisoners. He found that people become so immersed in the norms of the group that they lose their own sense of individuality and personal responsibility for their actions. This experiment was not as much about the authority figure creating an unethical atmosphere as it was about the environment, a bad barrel, which created the unethical behavior.⁶ The unethical behavior became the norm and was widespread throughout the organization.

Examples of Organizations Gone Bad

There are numerous examples of organizations whose behaviors have drifted far from their espoused ethics. These organizations include the gamut of public and private, governmental and nongovernmental, religious and secular organizations. Ford, with the Pinto and its exploding gas tank from rear end collisions, decided it was cheaper to pay the claims from the families of those killed in the fire than it was to fix the problem.⁷ Volkswagen knowingly cheated on their emissions standards to comply with U.S. emissions standards.⁸ Sears incentivized its mechanics to lie and cheat on fixing cars by repairing things not broken.⁹ Merck kept selling its lucrative drug Vioxx, knowing that it was causing deaths.¹⁰ Wells Fargo incentivized thousands of workers to make up false accounts and overcharge their customers to receive bonuses and to keep their jobs.¹¹ Just as no individual is impervious to unethical conduct, no organization is inoculated from such possibilities.

The military has numerous examples of

unethical behavior, both in peace and war. My Lai and Abu Ghraib bring up memories of unethical and immoral behavior in units. Hundreds of people working for the Navy were implicated in the Fat Leonard scandal involving bribes, prostitutes, and gifts. Ninety-two Air Force officers were suspended for cheating on a missile exam, while many others were implicated in cheating scandals.¹² Gerras and Wong, who research and teach at the U.S. Army War College, wrote an article on the normalization of lying to ourselves in the Army through unrealistic expectations in qualifications and reporting. The list goes on. A few of the reasons organizations become unethical are outlined in the following sections.

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Moral Disengagement

Moral disengagement theory sheds further light on the bad barrel phenomenon. Albert Bandura, a Stanford research psychologist, utilizes this theory to examine how large groups of people disassociate their unethical behavior from any sense of personal responsibility. Bandura theorizes that religious, racial, and nationalistic rationalizations allow ordinary, decent people throughout much of history to commit atrocities while maintaining a sense of self-righteousness. Bandura includes Milgram's study in using authority to diffuse responsibility, as well as the feeling that if everyone is doing it, then it must be all right.¹³ When everyone has some responsibility, then no one really feels ownership. Individuals become anonymous in a crowd of others performing the same unethical action. This easily happens in large organizations.

Selective moral disengagement is the

means by which large groups of people and organizations can commit horrendous acts of violence or unethical behavior, and yet still feel they are good people.¹⁴ Dehumanization, or looking at others as less than human, is one instance of this moral disengagement. In Rwanda, when the Hutus called the Tutsis cockroaches in the months before they slaughtered them, they dehumanized the Tutsis as insects to be crushed. Over 800,000 people were killed in as little as 100 days.¹⁵

Euphemism is another means of moral disengagement. The substitution of a word or phrase for another that sounds less offensive is euphemism.¹⁶ People use euphemistic labeling of unethical acts in terms of sanitized language, such as referring to the killing of civilians in war as collateral damage, or condoning torture by calling it rendition and outsourcing it to other countries.¹⁷ It is a means by which an entire society can feel comfortable with itself as the government condones killing and torturing people.

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Ethical Fading

Ann Tenbrunsel, a popular author and professor at Notre Dame, and David Messick, a psychologist and professor emeritus at Northwestern University, provide another way of exploring the roots of unethical behavior in organizations. They look at the role of self-deception in making unethical decisions and name the process ethical fading. They describe ethical fading as, “the process by which the moral colors of an ethical decision fade into bleached hues that are void of moral implications,” through the process of self-deception. If we take sufficiently small steps away from ethical decisions so that it does not

appear different, we can drift into illegal and unethical activity without seeing it as such. As the drift continues, the new behavior becomes routine and normalized. When it is routine, it becomes ordinary and acceptable and any ethical evaluation is lost or fades away.¹⁸

Another way for the ethical colors to fade is to qualify a decision as a business, legal, or economic decision and take it out of the ethical realm so any ethical piece of the decision fades away. The Challenger disaster deliberations on whether to launch the space shuttle were based on safety concerns and the decision was to not launch the spacecraft. One of the senior engineers, Roger Boisjoly, described the process to change the decision to launch as follows: “So he (the general manager) turns to him (the one senior manager who voted to not launch) and said ‘take off your engineering hat and put on your management hat’—and that’s exactly what happened. He changed his hat and changed his vote, just 30 minutes after he was the one to give the recommendation not to launch.”¹⁹ The decision to launch was no longer about safety and the lives of the astronauts, but about the bottom line and pleasing the employer.

Craft Ethics

Craft ethics uses ethical relativism to explain how an organization drifts from its ethical standards. Craft ethics contrasts “at home” ethics with “at work” ethics. In this case, people follow work ethics while on the job, even if those ethics directly conflict with their personal beliefs outside of the job. This theory takes the perspective that performance at work and getting the mission accomplished is more important than one’s personal ethics, and that loyalty to the team and their assignment determines what is right and wrong. This attitude creates a cultural relativism whereby right and wrong is created in the culture of the organization and is enshrined in doing what it takes to accomplish the mission or to advance one’s career.²⁰ In a sense, this

could be a subset of ethical fading.

Wong and Gerras, point out that the Army instituted unachievable training tasks and standards for its members and holds them accountable in a zero defects environment. This atmosphere creates a propensity to lie and cheat on reports. “The Army as a profession speaks of values, integrity, and honor. The Army as an organization practices zero defects, pencil-whipping, and checking the box. Army leaders are situated between the two identities—parroting the talking points of the latest Army Profession Campaign while placating the Army bureaucracy or civilian overseers by telling them what they want to hear. As a result, Army leaders learn to talk of one world while living in another,”²¹ a prime example of craft ethics overshadowing personal and even organizational ethics. Espoused ethics and enacted ethics are incongruent within the Army due to the culture demanding unachievable standards to succeed and get promoted, which counter one’s ability to ethically accomplish all of the tasks assigned.

Administrative Evil

Adams and Balfour wrote a book called *Unmasking Administrative Evil*. They make the assertion that ordinary people performing their normal duties and responsibilities engage in unethical practices without ever realizing they are doing so. In some instances of moral inversion, acts that are evil are redefined as good. Many people participate in administrative evil routinely by just doing their job.²²

For example, Wong and Gerras assert that officers in the Army choose terms to describe unethical behavior in positive language using moral inversion. Many officers in their inability to accomplish all of their required annual training, report that the training was completed when it was not and “insist that lying to the system can better be described as prioritizing, accepting prudent risk, or simply good leadership.”²³ In addition, those in the tobacco

industry routinely perform their jobs, which contribute to the deaths of hundreds of thousands of people yearly. They knowingly make their product more addictive, more attractive to children, and more deadly.²⁴ Administrative evil is indicative of people performing unethical acts who either do not know they are doing them or have no deliberate intention to harm others. They are just doing their administrative job without looking at the larger context of what that job or task means to someone else’s life and health.²⁵

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Bounded Ethicality

Dolly Chugh, associate professor at New York University, Max H. Bazerman, and Mahzarin R. Banaji, both professors at Harvard, argue that ethics is bounded. They argue that many individuals routinely fail to identify conflicts of interest due to assumptions of their own ethical behavior.²⁶ They write, “Specifically, we argue that individuals view themselves as moral, competent, and deserving, and this view obstructs their ability to see and recognize conflicts of interest when they occur.”²⁷ If our activities and thoughts are unchallenged, we often assume that our doings represent acceptable ethical standards, even when such activities may well exist beyond ethical norms.

Even when organizations seek to create a certain level of objectivity, such efforts may lead to more unethical decisions and behaviors because the organization assumes there actually is objectivity. For example, in the military the inspector general has a role to play in ensuring that the organization is operating within the law and meeting certain ethical standards. Because of the inspector general’s presence in the organization, some assume that the decisions have a level of objectivity and that

those decisions fit within our ethical framework. Yet, this discounts the inspector general's own vested interests within the command that he or she may, at an unconscious level, make decisions based on beliefs about what most benefits the command. The "objective" party brings a sense of legitimacy to decisions and behaviors without necessarily being objective. "[P]rofessionalism provides only partial immunity against intentional corruption," as Chugh, Bazerman, and Banaji state, "and little immunity from the unconscious processes that lead decision-makers to succumb to conflicts of interest."²⁸

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In the *Power of Noticing*, Bazerman focuses on the Jerry Sandusky scandal at Penn State University and the sexual assault scandal within the Catholic Church as a way to approach a condition within bounded ethicality termed "motivated blindness."²⁹ In discussing the Sandusky case, he writes, "All of [the witnesses] may have been more interested in protecting their jobs, the school's reputation, or both than in protecting future abuse by Sandusky."³⁰ His discussion of the Sandusky scandal flows naturally into his discussion of the sexual abuse scandal within the Catholic Church. Bazerman points out that Archbishop Law fought for civil rights and was considered an ethical leader. Yet, in regards to priests sexually assaulting parishioners, Archbishop Law failed to act ethically by allowing several priests to continue serving Catholic communities and continuing to expose members to sexual predators.³¹ "The term motivated blindness," Bazerman writes, "describes the systematic failure to notice others' unethical behavior when it is not in our best interest to do so. Simply put, if you have an

incentive to view someone positively, it will be difficult to accurately assess the ethicality of that person's behavior."³²

We each have examples in our lives of ethics gone wrong. In many of these instances, large groups of people and organizations fell into a trap of unwittingly becoming unethical. It happens daily, whether in our job or from what we see on the news about unethical organizations and governments. In many cases, those acting unethically are not even able to discern their own unethical behavior. There are a few options to choose how to act and most of those actions require significant courage.

What's a Person to Do?

People who find themselves in an organization that is unethical and recognize the unethicality, can do one of several things. First, they can report the unethical behavior to the chain of command, to those in positions of power over them. This is often a serious issue, since the people receiving the report of unethical conduct may be the ones committing the unethical behavior, or at least know about it and are doing nothing to stop it.

For instance, in the Navy's Fat Leonard scandal, many admirals were good friends with Leonard Glenn Francis, the maritime tycoon who bribed the Navy officers. It was common knowledge what was going on. Admiral Samuel Locklear, a commander of the U.S. military forces in the Pacific, attended a party that featured prostitutes as entertainment, as well as previously attending dinners with lavish accommodations that cost approximately \$700 to \$1,000 per person. Somewhat to Locklear's credit, he left the party when Francis walked in with fifteen prostitutes,³³ but does anyone seriously think he did not know what was going on? Whoever reported it up the chain of command would eventually have to report it to the admiral, who was there and obviously did not consider anything wrong with a contractor

supplying prostitutes to his officers.

Hugh Thompson, a helicopter pilot in the Vietnam War who saw the carnage at the My Lai massacre, stopped to rescue some survivors. He reported the incident up his chain of command and the Army buried the story. Subsequently, Thompson became an outsider in the organization and was assigned some of the most difficult combat assignments without backup firepower. He had five helicopters shot out from under him in an effort to get him killed.³⁴

Another option is to go outside the organization and become a whistleblower. This takes a lot of courage and willingness to lose one's job, to become a pariah within the organization, or even to risk incarceration. "Statutory protections are filled with gaps and exemptions that leave them [whistleblowers] highly exposed. Internal channels are sometimes worse than ineffective—the offices tasked with protecting whistleblowers are often used to retaliate against them. Beyond administrative retaliation, whistleblowers increasingly face harsh criminal prosecution. And extreme secrecy requirements often impede their defense attorneys."³⁵ It is counter to military culture for officers to go outside the organization to report wrong doing and become a whistleblower. It takes a lot of moral courage and indignation to come forward because whistleblowers are routinely not dealt with fairly. Sergeant Joe Darby, the whistleblower for Abu Ghraib, was in hiding for a year to protect his life. "For this act of courage, he was vilified by his fellow soldiers, his friends, and even his family."³⁶

The next option for the person is to ignore the unethical behavior and become "ethically neutral."³⁷ They can decide not to partake in the activities, but also not to report them. Several Soldiers at My Lai massacre refused to participate in the killing of innocent civilians and children, but they also chose not to report it either. A young Soldier in the unit named

Bernhardt wrote frequently to his Congressman to complain about life in his unit and in Vietnam. Following the actions at My Lai, his company commander made it clear that Bernhardt might not make it home alive if he reported the massacre.³⁸ The full story of the atrocity did not appear until a year had passed. A Soldier, Ronald Ridenhour, who was not there at the massacre but heard about it while he was in Vietnam, did a personal investigation and waited until he was out of Vietnam before he wrote a letter to numerous members of Congress to report it. The Army did an investigation and uncovered this atrocity. Many knew about it and yet said nothing becoming "ethically neutral."³⁹

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A fourth option is to adopt the values of the organization to fit in. Many adopt behaviors associated with the group such as accepting bribes, shooting innocents, or anything they believe illustrates their devotion to the team. The people who falsified the accounts for Wells Fargo, the young men who murdered innocent civilians in Vietnam, the Air Force officers who cheated on their tests, and many others who succumb to organizational pressures are not monsters looking to commit atrocities. Instead, they represent the cross-sections of Americans who live next door simply trying to do their jobs. It is easier to fit in and do what your boss asks, not make waves or cause a disturbance, and be a part of the team rather than risk excommunication from the group. Both Milgram and Zimbardo proved this true in their experiments.

Last, they could leave the organization without doing anything about it. In My Lai, one Soldier shot himself in the foot to get evacuated and not be a part of that atrocity.⁴⁰ There are

those in the Pacific Fleet who resigned their commission rather than be a part of a corrupt organization. A Navy officer in Hong Kong, David Schaus, flagged a fraudulent sewage bill from Glenn Defense and reported it to the Naval Criminal Investigative Service. He was stunned when the Naval Criminal Investigative Service dropped the case. Disillusioned, he left the military after other people in the Navy “made my life hell” when they learned he blew the whistle on Fat Leonard.⁴¹ In Schaus’ case, he reported inside the organization, outside the organization, and finally left the organization. If the ethical problem is an individual, the organization can fire them or punish them in some manner. The question remains, how do leaders address ethical issues that involve the entire organization?

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Solutions

For an organization to safeguard themselves from unethical conduct, potential solutions must be sufficiently broad to address ethical concerns. The remainder of this essay explores a broad strategy to combat and mitigate unethical behavior. First, the organization must recognize that environmental conditions and human tendencies contribute to an increased likelihood of unethical decisions. Second, the organization needs to develop internal and external checks to mitigate the possibility of bounded ethicality. Third, the organization should focus on building ethical leaders at every level through systematic and concerted efforts. Finally, the organization should embrace processes that assist decision makers in making sound, ethical decisions.

The first step to addressing unethical organizational behavior is to recognize trends that indicate larger problems. To accurately

assess the organization, those in charge need to distinguish structural, institutional, and systemic factors involved in creating a poor organizational climate that lays the groundwork for unethical activity.⁴² As leaders recognize the factors leading to a poor climate, it is imperative they take steps to address those behaviors so that everyone understands the organization’s ethical standards and demands.

Through conscious reflection, organizational leaders should review both the formal and informal systems employed throughout the organization to ensure they foster ethical decisions. Leaders need to recognize the importance of humility and moral courage in preventing and correcting unethical decisions, as well as foster critical thinking in their organization to identify the potential for bad decisions. While accountability for poor behavior is necessary to correct problematic areas, developing approaches to reward individuals and teams who are creating a positive, healthy climate is also important. Yet, mechanisms for punishment or reward also need to be thoroughly and periodically checked for unintended consequences so that they lead to positive ethical changes.

Johnson & Johnson stood as an exemplar of organizational ethics. In 1982, several people died from poisoned Tylenol. The Chief Executive Officer, James Burke, took unprecedented steps to resolve the problem. Not only did Johnson & Johnson issue a total recall for all Tylenol, they issued a refund to every consumer who returned the potentially tainted Tylenol, and created a tamper proof seal that would become the industry standard. While, Johnson & Johnson could have just settled the cases against them and taken the losses, they elected to aggressively address the issue based on their values and mission displayed in their credo. In spite of the daunting up-front costs, Johnson & Johnson did the right thing for consumers, society, and their stakeholders by unequivocally acknowledging

the hazard, working to correct the problem, and restoring trust in the Tylenol product and the Johnson & Johnson organization.⁴³

Walter Earl Fluker, in *Ethical Leadership*, challenges leaders to develop what he calls “communities of discourse and praxis.”⁴⁴ In other words, leaders need communities in order to get a more holistic view of themselves and their organization. Through an intentional process of incorporating stakeholders and non-affiliated outsiders, these communities can effectively get leaders out of their organizational bubble and force them to look at themselves more honestly. Such communities also provide a framework for helping leaders see their organization more honestly, perhaps allowing them to recognize deeper seated issues than previously identified. Fluker states, “Defiant acts of courage are dangerous and risky by nature, but the power of community serves as the source of motivation and resilience.”⁴⁵ While such communities may not address every problem, they can help ensure leaders are more honest brokers and more ably target conditions created by bounded ethicality.

In the case of Johnson & Johnson and Tylenol, such extraordinary courage was key to the successful transition from tragedy to recovery and growth. A courageous naval aviator, Paula Coughlin, stepped forward in 1992 to describe the horrendous events at Tailhook ‘91. Understanding the risks she took wearing her dress uniform on public television to speak truth, she boldly journeyed into the fray of a culture marred by toxic masculinity and exposed a cancer in dire need of removal. While the cancer of toxic masculinity still remains nearly 29 years later, women now occupy a much larger space within the military and the activities that occurred at Tailhook ‘91 appear backward and unconscionable in our current environment. Coughlin’s actions, and those of her supporters, contributed to better aligning actions within the military to the values and morals espoused by American service men and women.⁴⁶

Another aspect of addressing unethical organizational behavior is to develop ethical leaders throughout the organization. While leaders have tremendous influence on the overall ethicality of an organization, small groups within the organization still possess the ability to act unethically. By incorporating ethical decision making training into organizational training, establishing a code of conduct, laying out expectations in a clear fashion, enforcing appropriate rewards and punishments for behavior, and establishing a transparent process to air grievances and concerns, the organization establishes a starting point for developing and ensuring the ethical behavior of its members.

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Finally, organizational processes should encourage ethical behavior. In a 2008 study centered on the effect of making choices, the authors found, “Making choices apparently depleted a precious self-resource because subsequent self-regulation was poorer among those who had made choices than it was among those who had not.”⁴⁷ For our purpose here, this means that an organization needs to develop processes that intentionally limit choices made by its members. Designing networks of decision makers throughout the organization to feed other decision makers could reduce the toll of decision making throughout the organization. Such a system also provides more opportunities for the organization to discern, deliberate, and utilize Fluker’s model of ethical decision-making.⁴⁸ These processes should include a mechanism to challenge potential decisions, such as ‘red teaming,’ that allow raising objections and addressing biases.

Solutions designed to prevent unethical, immoral, or criminal behavior are not readily

apparent in most situations and are often challenging to implement. The organization should embrace what Ronald Heifetz calls “adaptive leadership.” In Heifetz’s work with Marty Linsky, *Leadership on the Line*, they state, “Without learning new ways—changing attitudes, values, and behaviors—people cannot make the adaptive leap necessary to thrive in the new environment.”⁴⁹ Critical thinking, moral courage, humility, unbiased input (from outside or inside the organization), red teaming, explicit consequences for unethical behavior, and codes of conduct are all necessary factors in shaping ethical organizational behavior that has the capacity to adapt to new and varied challenges.

Conclusion

Organizations are complex and diverse entities. They have histories, interests, and goals that pose real challenges for ethical activity. Organizations that desire to be ethical must take note of the myriad ways unethical cultures can arise and take steps to address such challenges. Barriers to ethical activity like moral disengagement, ethical fading, craft ethics, administrative evil, and bounded ethicality are overcome through courageous moral action, but organizations should not plan as if such acts are going to occur naturally. Instead, ethical organizations like Johnson & Johnson begin by deliberately cultivating an ethical framework to ensure that the organization remains adaptive and postured to deal with the changing ethical landscapes of the future. While individuals and organizations can act ethically or unethically, organizations can learn from history and particular case studies in order to formulate promising solutions that motivate individuals and organizations to be more ethical. While it might be impossible to determine the true source of unethical behavior, whether it comes from a bad apple or a bad barrel, leaders have the ability and responsibility to prepare for either and address both. **IAJ**

NOTES

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