

# Hidden Changes in Organizational Culture and Their Lasting Effects

*by Christopher R. Allen and Ted A. Thomas*

**W**e continue to see reports of unethical practices within trusted organizations, oftentimes committed by good people. What causes these individuals to act out of character, especially when their organizations advocate upholding core ethical values? Organizations experience evolutionary culture changes over time when there is conflict between the espoused values organizations strive to uphold and the enacted values of individuals within the organizations. Members of an organization will conform behaviors based on their experiences derived from the decisions of leaders, not from a list of organizational values. The purpose of this paper is to help understand culture change and the ethical impacts it can have on individuals by applying organizational change theories to the United States Navy's "Fat Leonard" scandal. The paper explores ways for leaders to identify conflicting values within their organizations and highlight some of the available tools to understand where to implement change to realign the organization.

## **The U.S. Navy and "Fat Leonard"**

The United States Navy is an organization founded on the core values of honor, courage, and commitment. The current mission "to maintain, train and equip combat-ready Naval forces capable of winning wars, deterring aggression and maintaining freedom of the seas," requires professional sailors to uphold the highest standards in a variety of contexts as they carry out their duties in multi-cultural environments.<sup>1</sup> The Navy has fought in ten major wars to help protect the United States' national interests, and continues to serve worldwide with over 100 bases and ports of

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call.<sup>2</sup> It is organized into fleet forces strategically positioned around the world. Each fleet must tailor its own mission and set of espoused values to the specific needs of a unique geographic operating environment while upholding the Navy's core values.

**Organizations are open systems, continuously interacting with their external environment.**

These fleets are subordinate organizations of the Navy, espousing to serve with honor, courage, and commitment. Each perpetuates its own culture that should align with the beliefs and values of its higher headquarters. However, there is an open investigation of a major scandal involving defense contractor Leonard Glen Francis, "Fat Leonard," head of the husbanding service provider Glenn Defense Marine Asia (GDMA), and top ranking naval officers once stationed in the Pacific.<sup>3</sup> The investigation includes the conduct review of more than 440 active-duty and retired personnel for potential ethical violations while serving in the Navy's Seventh Fleet.<sup>4</sup> Allegations against the naval officers include the exchange of classified information on ship movements in the Pacific for lavish gifts, luxurious hotel accommodations, dinner parties, and time with prostitutes.<sup>5</sup> GDMA provided husbanding services for naval vessels for over 25 years, but the bulk of the investigation is centered on Leonard's interactions with the Navy between 2006 to 2013.<sup>6</sup> Leonard used classified information to obtain contracts and help route ships to ports where he could overcharge the Navy \$20 to \$35 million for fuel, water, food and other resources.<sup>7</sup> The investigation continues to unfold, but something of this magnitude and duration implies that there was far more lurking under the surface of the Seventh Fleet than a few corrupt, unethical individuals.

**Punctuated Equilibrium in the Seventh Fleet**

Organizations are open systems, continuously interacting with their external environment.<sup>8</sup> Dr. Connie Gersick, an organizational behaviorist, describes punctuated equilibrium in organizational culture as changes in the external environment that have a transformational impact on an organization operating in a steady state. She uses three domains to explain how and when change occurs: deep structure, equilibrium periods, and revolutionary periods.<sup>9</sup> Dr. Gersick defines deep structure as "the set of fundamental choices an organization makes as to how it will be organized and how it will function to maintain its existence."<sup>10</sup> The equilibrium period for an organization is "a steady state in which the organization continues to perform the decisions formulated in its deep structure where incremental changes or adjustments may occur."<sup>11</sup> These incremental changes do not alter the organization's deep structure and eventually settle into a steady state but, over time, can create evolutionary change in the culture. The revolutionary period refers to "change or a sudden disruption of the organization's deep structure during the equilibrium period."<sup>12</sup> Organizations can experience change to its deep structure as a result of sudden change in the external environment. The organizational leader's ability to predict and react to these changes directly affect the manner in which change will occur.

The U.S. Seventh Fleet was in a period of equilibrium operating in the Pacific region through the early 1990's, about the time GDMA began its interactions with Navy vessels. Ships regularly visited ports of call throughout the region to interact with different contracted companies hired to provide sustainment services while ships were deployed from naval bases for extended periods of time. Leonard was a charismatic defense contractor who went out of

his way to accommodate the high ranking naval officers during their stay at ports of call. The initial services provided by GDMA were standard on the surface, however Leonard's ability to build personal relationships with the admirals set his company apart from other contractors. Leonard's statement of facts provides examples of personal email and text exchanges between Leonard and high-ranking navy officials establishing friendly conversation and planning future visits.<sup>13</sup> Seventh Fleet admirals continued to experience these different interactions with Leonard and his company throughout the Pacific. GDMA provided the necessary sustainment services needed for continued operations of the vessels; the Navy continued to approve contracts with Leonard allowing commanders to distance themselves from actual costs of services; sailors were able to enjoy the exotic locations while at port; and the senior officers had the comfort of a personal relationship with the contractor. We begin to see the incremental changes during the equilibrium period where husbanding services with GDMA were preferred, however the impacts on the organizational culture remained hidden from the leadership.

## Organizational Culture

The common description of organizational culture is the shared values and beliefs that underlie an organization's identity.<sup>14</sup> These values and beliefs create norms that shape the behavior of individuals and groups within the organization.<sup>15</sup> Culture manifests itself on different levels, moving from the tangible indicators an individual can easily see or touch to the intangible, often unconscious influences that affect an organization's behavior. Understanding an organization's deep structure and its fundamental choices for survival can help one to understand the culture.

Dr. Edgar Schein, a social psychologist, categorizes organizational culture on three levels: artifacts, espoused values, and basic

underlying assumptions.<sup>16</sup> Artifacts are the phenomena an individual can readily see, hear, and feel when entering an unfamiliar culture. Espoused values stem from an individual's personal values and beliefs of what is right and wrong, usually emanating from the founder or influential leader in the organization. They are publicly articulated representing the values the organization strives to live up to.<sup>17</sup> Dr. Schein explains that espoused values, which bring comfort to a group, may contradict the enacted values that reflect effective performance, creating a gap between desired behaviors and observable behaviors.<sup>18</sup> An organization's basic underlying assumptions become the behaviors and norms taken for granted as a result of repeated success of implementing certain values and beliefs.<sup>19</sup>

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Leonard's relationships with officers grew as individuals attained levels of higher responsibility and established relationships with new commanders in the Seventh Fleet. The officers and crewmembers operating in the Pacific were accustomed to the accommodations GDMA provided. Visiting ports where GDMA was located turned to common practice and passed on to new commanders and officers that planned and approved the shipping routes. Dr. Diane Vaughan, a sociologist, refers to this as normalization of deviance.<sup>20</sup> Behaviors to ensure GDMA received contracts became normal, as opposed to following the standard operational contract support procedures for multiple vendors in order to ensure fair competition for contracts. We can see the organization's conflict between the espoused values of honor, courage, and commitment to the Navy and protecting

U.S. interests and the enacted values of these luxurious vacations while forward deployed to the Pacific area. New members entering the Seventh Fleet were re-socialized to behave according to the organization's enacted values.

**Andrew Leigh, organizational consultant and author, explains the psychological process of ethical fading as a slow erosion of an organization's ethical code.**

### **Ethical Fading**

An organization's equilibrium period is a time of complacency when members are comfortable making decisions and behaving in accordance with the social norms of the culture. This leaves the organization vulnerable to "ethical fading." Andrew Leigh, organizational consultant and author, explains the psychological process of ethical fading as a slow erosion of an organization's ethical code. It typically involves good people acting unethically with no knowledge of even being involved in an ethical situation.<sup>21</sup> Ethical fading may start with small decisions that cause leaders to allow their judgmental biases to cloud their individual feelings based on the values and beliefs of the organization. These ethical blind spots have the potential to grow to serious unethical practices over time.<sup>22</sup> Ethical fading discretely changes an organization's culture. Viewing it through the lens of normalization of deviance, the perception of an unethical practice becomes acceptable behavior and a norm in the organization. Group dynamics also play a part in an organization's ethical fading. A leader may leave a decision to a team of people, removing the feeling of individual responsibility.<sup>23</sup> The group decision may have the best intent for the organization, but separate from any individual's internal ethical code. Ethical fading, in essence, is an

incremental change in an organization that does not disrupt the deep structure. Instead, it leads to slow evolutionary culture change guiding unethical practices that become socially acceptable behaviors within the organization.

Leonard built his relationships with the top organizational leaders of Seventh Fleet. The individuals with direct impact to the organization's culture were the ones being targeted by GDMA. Email traffic and text messages between Leonard and managers of his ports show a gradual progression of gifts and services provided to the officers to establish trust and motivation to continue using GDMA for husbanding services. One text message to Leonard about the Deputy Director of Operations for Seventh Fleet in 2010 read, "[He] is an official GDMA card holder..." referring to the Navy Captain's comfort exchanging classified ship schedules with the manager.<sup>24</sup> The gifts progressed from Cuban cigars to parties lasting multiple days with luxurious hotel accommodations. Accepting these gifts was normalized as part of the GDMA husbanding experience.

Ethical fading crept into Seventh Fleet's culture. Leaders either consciously or subconsciously deceived themselves in order to justify their decisions. They learned the organization valued these mini-vacations with GDMA while deployed and that the accommodations offered were acceptable. Leaders slipped into a false sense of security, rationalizing that they were supporting the Navy's mission by maintaining a positive climate on the ships and boosting morale by visiting the ports of call. They believed they were living up to the Navy's espoused values as they viewed their behaviors from Seventh Fleet's perspective. Leaders could believe Leonard's business with the Navy was legitimate, and as long as the Navy continued to award GDMA the defense contracts, there were no issues. The individuals unwilling to align their personal values with

the enacted values of the organization reached cognitive dissonance. This internal conflict occurs when personal values are incompatible with their behavior.<sup>25</sup> These individuals were left with the options to report the incidents to those officers committing the crimes, risk being labeled and ostracized as a whistleblower, exit the organization, or ignore the behaviors and re-socialize to the culture.

The “Fat Leonard” scandal continues to unfold. The investigation provides little insight to the true influences at hand as it is only a snap shot in time of Seventh Fleet. We inject ourselves with an outside perspective as we read cases like this to try to understand behavior and where to initiate change as leaders. The root cause of a problem when dealing with human behavior is often complex. A fundamental attribution bias, assuming an individual’s behavior is attributed to personal characteristics while environmental forces are overlooked, can prevent a leader from fully understanding the situation.<sup>26</sup>

So, how do we identify underlying problems in our organizations before ending in public catastrophe? The reality for the indicted officers is that they were part of the Seventh Fleet culture, geographically separated from U.S. social norms, and groomed by Leonard throughout their careers. Removing these individuals without addressing the deeper cultural issues leaves Seventh Fleet susceptible to continued unethical practices. For example, the fleet had multiple collisions in 2017 caused by training and readiness failures, and more recently in February 2018, an investigation into an alleged drug ring run by sailors based in Yokosuka, Japan.<sup>27</sup> As can be seen in the Seventh Fleet example, resolving an organization’s underlying problems is more complex than identifying culprits.

## **Identifying Conflicting Values in Organizations**

Organizational leaders must recognize that organizations are open systems when identifying

conflicting values. The external environment impacts organizations, no matter how much control the leaders feel they have. The decisions made as a result of the changing environment are perceived differently throughout organizations based on individuals’ interpretations of a situation. A leader’s intent may be in line with the organization’s espoused values, however it is the perception of the action that is conveyed down to the lowest level.

**A leader must set the conditions for a self-correcting organizational culture.**

A leader must set the conditions for a self-correcting organizational culture. It takes work and a conscious effort to continuously assess the alignment of espoused values and enacted values. The vision a new leader enters an organization with is often quickly buried by short-term challenges needing immediate action. These sudden disruptions inject themselves into organizations regularly, keeping leaders focused on the task caused by the changing external environment. An example of this was Seventh Fleet commanders focusing on their tasks to deploy their sailors and ships to the Pacific for six months at a time, rather than addressing the behaviors at the ports of call. These types of problems can occur in any organization. The focus will remain on the external environment as long as leaders make a sub-conscious assumption that the individuals in the organization are internally aligned with the espoused values. Therefore, leaders must implement organizational processes for self-correction.

Organizational leaders need to find balance between accomplishing tasks and the process used in accomplishing them. One must understand how members of an organization make decisions, set goals, use resources,

interact with one another, and establish relationships in order to meet the desired end state of these tasks.<sup>28</sup> Consistent review of the organization's internal processes and behaviors provides leaders with feedback enabling them to assess espoused values versus the enacted. It is also an opportunity to identify if and where incremental change is needed to realign the organization or if revolutionary change is a necessity. The continued incidents after the "Fat Leonard" scandal in Seventh Fleet show that the organization requires a revolutionary change that affects its deep structure with a re-socialization period that aligns the members' values in the organization with the Navy's espoused values.

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Focusing on process has no immediate or observable gain, especially when end states are met and the organization appears successful. However, avoiding the process of how these ends are met can result in long term detrimental behaviors within the organization. Sears, Roebuck and Company is a prime example. In the early 1980's, Sears began to struggle financially as big competitors were on the rise. Sears created an incentive plan for its auto repair centers to increase profits by giving additional pay to mechanics and sales advisors for meeting hourly quotas. The incentives resulted in an increase in sales and organizational leaders perceived them as successful. Mechanics and sales advisors learned that the organization valued profit, not the espoused values of customer care or "everyday low pricing" that the slogans alluded to.<sup>29</sup> Leaders overlooked or ignored how the auto repair centers were meeting their quotas until an undercover investigation brought the unethical

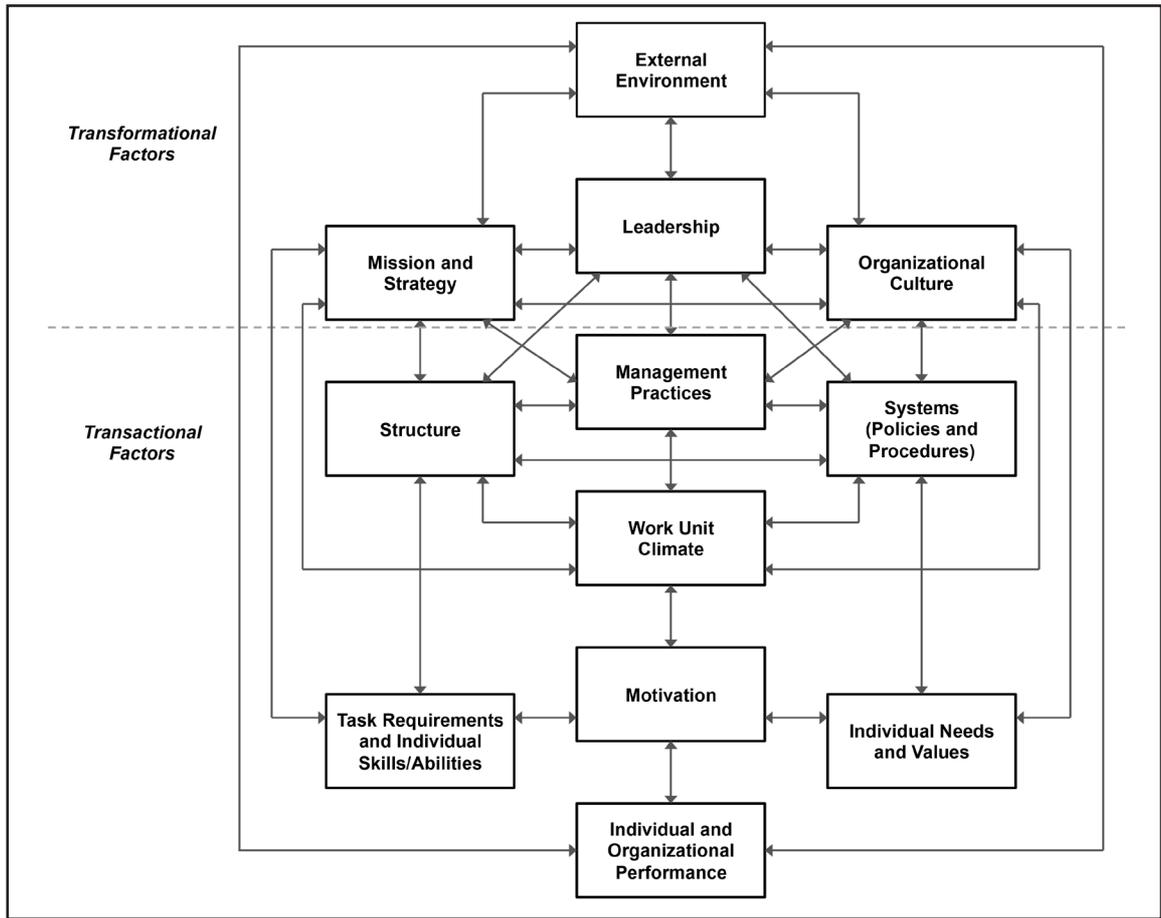
behaviors to the public. The mechanics and sales advisors were charging customers hundreds of dollars for needless repairs.<sup>30</sup> All focus was on the task of improving Sear's financial issues. The process was not a priority, and leaders were ignorant to the gap in values as ethical fading compounded the initial financial problem.

Prioritizing process and aligning values starts at the top of the organization. If the boss or leader focuses on analyzing and answering the question, "Are we who we say we are?" that priority flows down into the organization. The crucial pieces are the actions leaders take as a result of any discrepancies found between the espoused and enacted values based on bottom up feedback. Corrective action will show that the organization values the behaviors it espouses. Members in the organization will also learn that leaders value honest feedback, helping set the conditions to eliminate the need for moral courage to say something when they experience a deviation from the standard. Leaders will assess and align organizational values differently, many times dependent on the situation and unique personalities at play. There are tools and practices to assist leaders taking an inward look at their organizations.

### **Tools to Understand Where to Implement Change**

The use of an organizational model can help organize and interpret data to create an understanding of the organization's current state.<sup>31</sup> It gives a systematic approach for leaders to understand what is happening in their organization, where and why the organization diverges from its expected performance, and understand where change is necessary in order to realign its values. A good example of an organizational model that accounts for the external environment is the Burke-Litwin Model.

The Burke-Litwin Model (See Figure 1.) was developed throughout the 1970's and 1980's, based on Dr. Warner Burke and Dr.



**Figure 1. Burke-Litwin Model.<sup>35</sup>**

George Litwin’s experiences in consulting on organizational change. It is an open systems model, with the external environment providing input and the organization’s performance serving as output. The model consists of 12 focal points, which are “primary for organizational understanding and analysis,” that are connected by arrows that indicate their influence on one another.<sup>32</sup> The categories in the top half of the model are transformational factors: external environment, mission and strategy, leadership, and culture. The changes within them are often the direct consequence of interaction with one another and have a widespread impact throughout the organization.<sup>33</sup> The categories in the lower half are transactional factors, concerned with the day-to-day functioning of the organization: management, structure, systems,

climate, motivation, task requirements and individual needs.<sup>34</sup> Organizational and individual performance is the twelfth box, representing the output as a result of the organization’s current state. The model serves as a framework to categorize the data collected while assessing the internal processes of an organization.

The model is useful in breaking down the recent incidents in the Seventh Fleet and the understanding of the “Fat Leonard” scandal. The model shows a mutual relationship between leadership and culture. The decisions leaders made in the early 1990’s may have shaped the Seventh Fleet culture, but new leaders brought into the organization socialized to that culture. These two focal points are transformational categories that affect the entire organization. We see the lasting impacts the culture of self-

interest has on Seventh Fleet's new leadership, management, systems, and motivation, even with the removal of GDMA and the officers involved with the scandal. The culture remained constant, resulting in failures in training, readiness, and a potential drug ring. Continual review and data collection for the organizational model can help leaders maintain an understanding of the internal processes and implement the necessary changes before incidents of this magnitude occur again.

**Collecting data to assess an organization should come from multiple perspectives at all levels of the organization.**

Collecting data to assess an organization should come from multiple perspectives at all levels of the organization. Diverse working groups can organize discussions on various topics concerning the organization based on their experiences. For example, a group can discuss what they feel the organization actually values and provide recommendations on what the organization should value. New members entering an organization can be a useful group to hold open discussions and receive feedback as well. These individuals enter the organization with certain expectations. Espoused values are often communicated and displayed as artifacts during an organization's re-socialization and training period. The gap between espoused and enacted values is more apparent as new members learn and experience the organization's basic underlying assumptions. Feedback from different groups help organizational leaders understand what different levels of the organization are experiencing. It also helps leaders to determine if their espoused values are important or relevant throughout the organization.

Climate surveys are a popular tool used in many organizations. These surveys typically

measure surface level emotions and satisfaction in the workplace. It is an opportunity for employees to provide anonymous feedback that they may not otherwise give in a group or face-to-face setting. Individual climate surveys make it difficult for a leader to discern organizational norms and underlying beliefs. However, a compilation of surveys gathered over time can show patterns. It is more of a holistic approach, but sudden dissatisfaction in the workplace can be an indicator of a deviation from what individuals expect. This may be intended if a leader is trying to pull the organization back in line with the espoused values, but an unintended disruption should raise a flag that there is more happening under the surface.

Organizational leaders can create or identify roles in the organization that focus on internal processes. Individuals in these roles can separate themselves from the daily taskings that stem from the organization's interaction with the external environment. Consultants from human resources department or chaplains in military organizations often take on this role. These individuals understand the organization's espoused values, and much like the climate surveys, they can observe patterns in climate and behaviors in the organization. They can identify the gap between expected behaviors and observable behaviors. This feedback can help organizational leaders identify conflicting values in action, as change is occurring. The inherent risk keeping this role within the organization is that it relies on an individual's perception that is part of the culture. An organization can also bring someone in from outside of the organization to conduct similar observations with no biases or socialization to the culture. For example, the Seventh Fleet could request a courtesy inspection of policies and procedures from the Inspector General. This comes with the risk of publicizing an organization's unethical practices to those outside of the organization before there is an opportunity to fix them.

Military organizations use indicators to assess performance and effectiveness of operations to meet desired end states. Measures of performance (MOP) are used to assess the organization's actions, answering the questions, "Are we doing things right?" or "Are we completing the tasks to standard?"<sup>36</sup> Measures of effectiveness (MOE) assess observations over time to gauge the achievement of the end state, answering the question, "Are we doing the right things to achieve the desired outcome?"<sup>37</sup> Organizational leaders can define MOP and MOE to assess policies, incentive programs, and rewards with the end state of observable behaviors aligned with the organization's espoused values. The Sears auto repair case is a good instance where MOP and MOE may have helped leaders identify the unintended behaviors of the incentives program with the ability to correct the action before the undercover investigation. Examples of the types of questions for the Sears' leadership include, "Are we delivering everyday low costs to our customers?" and "What is customer satisfaction with the implementation of the new policy?" MOP and MOE can help leaders to understand the effects of different policies and rewards on individuals in the organization and if the behaviors align with the espoused values.

The tools that assist organizational leaders identify conflicting values to correct an organization's course of action are readily available. The list above is not all inclusive or a single solution to all problems organizations face. Many of these tools determine organizational performance based on the demands of the external environment. Implementation of these techniques requires leaders to recognize the importance of understanding how the organization meets its end states and the ability to balance process and task.

## Conclusion

Today's most trusted and valued organizations are vulnerable to unethical behaviors. The U.S. Seventh Fleet, the Navy's largest forward-deployed fleet, evolved into a culture of self-interest and gain with 25 years of influence from GDMA. The unauthorized exchange of classified information for luxurious accommodations seems an obvious violation of ethical standards from an outside perspective. However, these behaviors within the Seventh Fleet were normalized and accepted by members of the organization, creating a new set of ethical values for the individuals operating in this environment. Organizational leaders must remain cognizant of the effects the external environment has on their organization. Evolutionary change occurs within organizational cultures when the enacted values conflict with the espoused values. Members of an organization learn the enacted values through experience and their perception of the decisions leaders make in response to the external environment. If the enacted values are reinforced, they become a norm in the organization and part of the culture's underlying assumptions. Members of the organization, to include leaders, socialize to this culture leaving them susceptible to ethical fading. Leaders must find a balance between accomplishing organizational tasks and the processes of how accomplishment occurs. A few tools and practices that leaders can use are organizational models, working groups, compiled climate surveys, consulting roles, measures of performance and measures of effectiveness. These tools and others can create a learning organization that fosters feedback and adapts to the changing environment in accordance to its espoused values. At one time or another, ethical fading will infect most organizations, unless it is recognized and action is taken to prevent it. **IAJ**

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